Before the
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Washington, D.C.

In the Matter of Mechanical and Digital Phonorecord Delivery Rate Adjustment Proceeding	Docket No. 2006-3 CRB DPRA

THE WRITTEN DIRECT STATEMENT, WITNESS STATEMENTS & EXHIBITS OF NATIONAL MUSIC PUBLISHERS' ASSOCIATION, INC., THE SONGWRITERS GUILD OF AMERICA, AND THE NASHVILLE SONGWRITERS ASSOCIATION INTERNATIONAL

VOLUME X

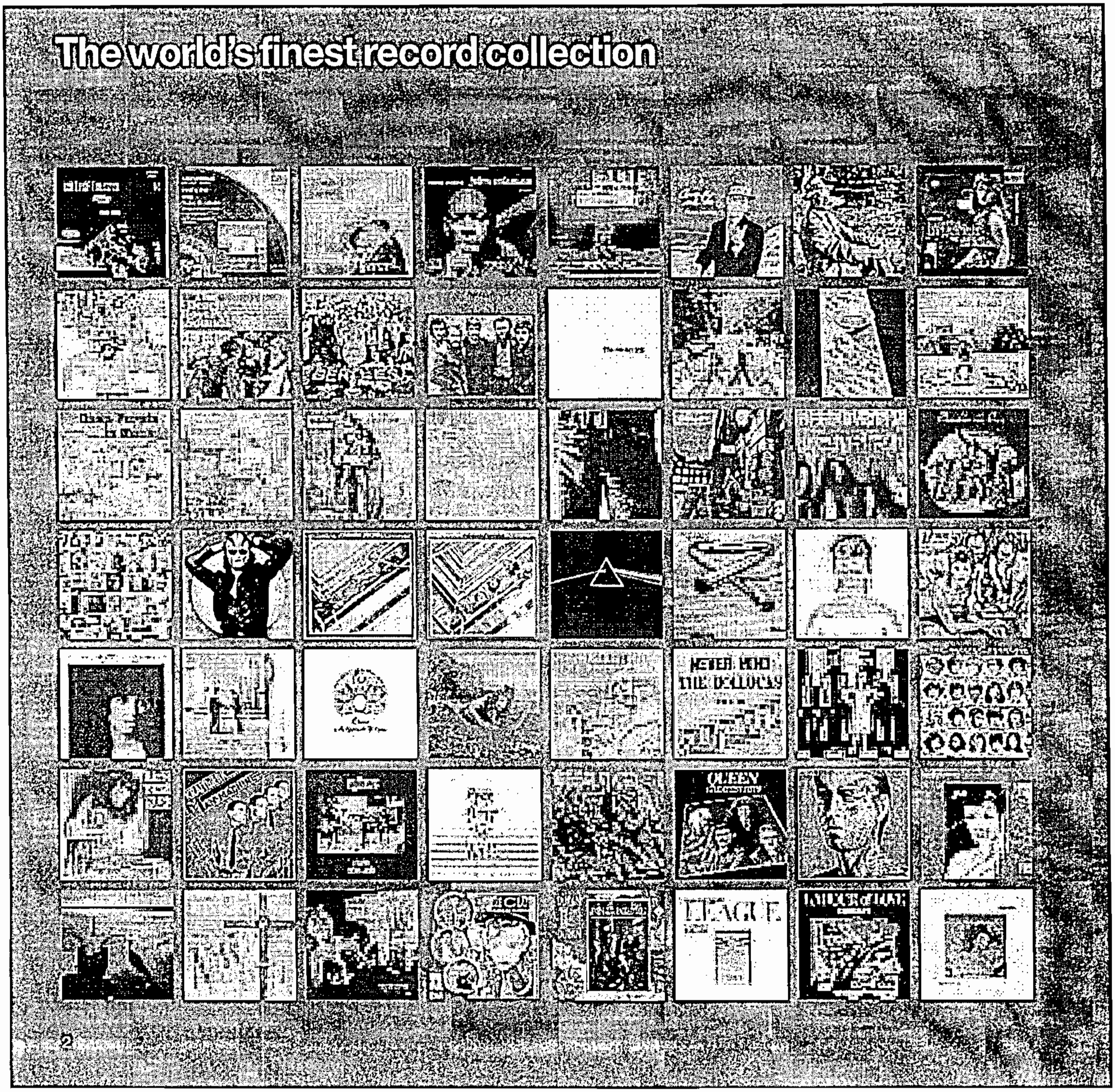
EXHIBIT CO 0925

Annual Report 2005

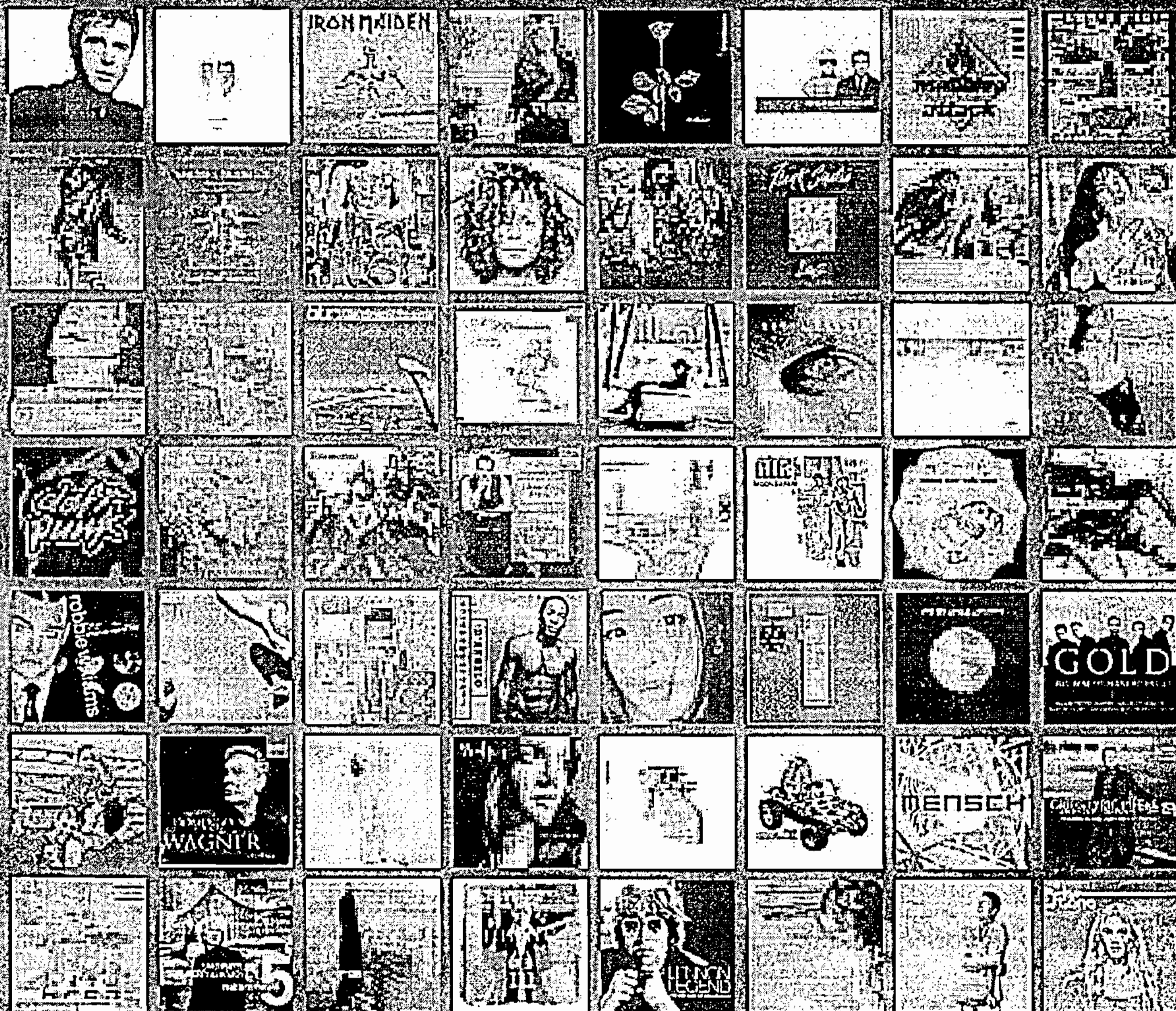
EMI

Contents

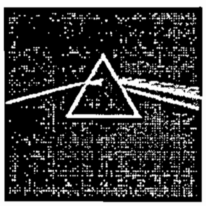

Our company
More than 230 online stores around the world now offer music legally, over 10 times the number in January 2003.
Source: IFPI
Click


The world's finest record collection
QUEEN

EMI Music owns an outstanding catalogue of recordings covering all key music genres.
This is a selection of just some of the best-selling albums in the EMI catalogue.



Our company



EMI is a music content company operating in more than 50 countries. Our music publishing company is the largest and most successful in the world. We have many renowned labels, including Blue Note, Capitol, Capitol Nashville, EMI Christian Music Group, EMI Classics, Parlophone and Virgin as well as the legendary Abbey Road Studios.

Our aim is to build shareholder value by developing the best musical content at EMI Music and EMI Music Publishing and fully exploiting this unique content on a global basis through all viable and economically attractive channels. We do this by working with, and nurturing, the world's best recording artists and songwriters; marketing and promoting their music; and delivering it to consumers in the ways they want.

Now is a very good time to be the owner of exceptional creative content. The digital revolution has dramatically changed how consumers can access and buy music and is expanding retail opportunities. New formats, uses, outlets and channels for our music content – particularly those related to digital music – are providing real growth in our markets. We continue to invest in a considered, structured way to yield the greatest value from our music content and the many new opportunities brought about by digital advances.

Creative industries such as music have long been recognised for their social, cultural and educational contribution. Today, they lie at the heart of the modern information society and are increasingly seen by governments and policymakers as key drivers of economic prosperity and innovation.

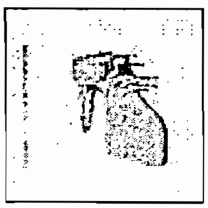
EMI today has an outstanding catalogue of songs and recordings covering all key music genres, geographies and time periods. We constantly strive to expand this catalogue, as hits of today become the classics of tomorrow.

EMI Music has a diverse roster of around 1,000 talented recording artists, including music legends such as The Beatles, the Rolling Stones and Mstislav Rostropovich; contemporary big sellers like Norah Jones, Robbie Williams, Kylie Minogue and Coldplay; newly successful acts such as Joss Stone, Keith Urban and Yellowcard; plus some of the finest classical artists including Nigel Kennedy, Simon Rattle, Itzhak Perlman and Angela Gheorgiu.

EMI Music Publishing's one million strong song catalogue contains older and contemporary titles – the product of many of the world's leading songwriters. Our perennial best-selling songs include *Bohemian Rhapsody*, *I Heard It Through The Grapevine*, *New York, New York*, *Over the Rainbow*, the *James Bond theme*, *Singin' In The Rain*, *Santa Claus is Comin' to Town*, *Wild Thing*, *We Will Rock You*, *Angels*, *Baby Love*, *Crazy In Love* and *Daydream Believer*.

The music industry has always been highly competitive and technological advances, in recent years, have led to considerable change. EMI has embraced this change, taking important steps to position our company so that we compete most effectively, and can grow and benefit as our market improves. We have built a highly capable, experienced management team, strengthened our capital structure, improved our business disciplines, developed new business models and, most importantly, continued to invest in the best creative talent around the world.

'Our aim is to build shareholder value by developing the best musical content and fully exploiting this unique content on a global basis.'



TRADE MARK
Parlophone

EMI MUSIC PUBLISHING

Improving operations

Central to EMI's strategy is our commitment to continuous improvement in our effectiveness as well as our efficiency. We have taken a series of steps to lower our fixed costs and improve our profitability. Over the last three years these efforts have reduced our fixed costs by £150m. We have already delivered £135m of those savings, and expect to realise the remaining £15m in the financial year just started.

Among the initiatives taken, we have reorganised our North American recorded music operations, consolidated back office functions and streamlined certain labels in Continental Europe. In addition, we have outsourced our primary manufacturing facilities which will maximise our flexibility in a music world that we believe will become less oriented toward physical products.

We are currently investing in a technology change programme in both businesses that will enable us to harness the opportunities brought about by digital technology. This multi-year effort is well underway, developing the infrastructure upon which we can grow and compete yet more effectively, further enhance our profitability and ensure that our artists reach their highest potential.

Of course, as important as an effective strategy is a company's capability to execute that strategy. Our people are the lifeblood of our company and we are committed to their personal development. We employ talented individuals with creativity, a passion for music, a willingness to take risks and a spirit of enterprise – all balanced by financial responsibility, integrity and accountability.

Developing and marketing our music content

We have continued to invest in our recording artists and songwriters, building our bank of content. While music by the likes of The Beatles, Pink Floyd, Queen, Maria Callas, Frank Sinatra, Nat King Cole and The Beach Boys can be timeless and generate attractive revenue for decades, current artists and songwriters whose music forms an important part of today's popular culture are essential for delivering sustained growth. An area of particular focus is the expansion of our American repertoire. This offers good growth prospects for EMI Music as we are still relatively underrepresented in the US recorded music market.

EMI Music and EMI Music Publishing are committed to developing a portfolio that spans key musical styles or genres to serve the shifting tastes of consumers. Both also maintain a global approach to building their rosters, focusing on artists and songwriters with international appeal as well as those whose music is targeted at a national audience. Locally originated music is an important element in a range of countries. For example, in Japan about 70% of music sold is from local artists, 60% in France and about 50% in Italy and Spain. We believe that to be the most successful music company, we must compete effectively with both international and local music.

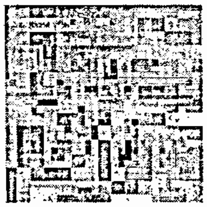
The world's greatest songs

ABC Ain't No Mountain High Enough Always On My Mind At Last Baby I Need Your Loving Bent Blue Moon Bohemian Rhapsody The Boy Is Mine Breaking Up Is Hard To Do Can't Get You Out Of My Head Can't Take My Eyes Off You Chattanooga Choo Choo Crazy In Love Da Ya Think I'm Sexy Dancing In The Street Drops Of Jupiter Everlasting Love Every Breath You Take Fallin' Fast Car Frontin' Genie In A Bottle Get Busy Gonna Fly Now The Good, The Bad And The Ugly (Theme) A Groovy Kind Of Love Help Me Make It Through The Night Here And Now Hero How Sweet It Is (To Be Loved By You) I Heard It Through The Grapevine I Left My Heart In San Francisco I Second That Emotion I'll Be Missing You I'm A Believer Imagine Iris It Don't Mean A Thing (If It Ain't Got That Swing) It's Only Rock n' Roll (But I Like It) The James Bond Theme Just Like A Pill Lady Marmalade Let's Get It On Let's Hang On (To What We've Got) Let The Sunshine In The Loco-motion Louie Louie Maggie May Material Girl Me And Bobby McGee Money (That's What I Want)

EMI Music Publishing controls the copyright to more than 1 million hit songs. Together they comprise the best-performing song catalogue in the world.

Mony Mony Moonlight Serenade My Girl Never Can Say Goodbye No More Drama Nobody Does It Better Oh Happy Day On Bended Knee On Broadway One More Night Orinoco Flow (Sail Away) Oye Como Va Over The Rainbow The Pink Panther Theme Put A Little Love In Your Heart Reach Out I'll Be There Santa Claus Is Comin' To Town The Shadow Of Your Smile Singin' In The Rain Smells Like Teen Spirit Someday We'll Be Together Stand By Your Man Stardust Start Me Up Stop! In The Name Of Love Stranger On The Shore Superman (It's Not Easy) That's The Way (I Like It) Theme From 'New York, New York' Three Times A Lady Touch Me In The Morning Try A Little Tenderness Tubular Bells U Got It Bad Walk On The Wild Side The Way We Were War The Way You Do The Things You Do We Will Rock You What Becomes Of The Brokenhearted What's Going On Where Were You (When The World Stopped Turning) Wild Thing Will You Love Me Tomorrow You Are The Sunshine Of My Life You Can't Hurry Love You've Got a Friend

EMI Music Publishing signs songwriters who are capable of writing the hits of today. These songs will sell year after year as EMI markets them so they are repeatedly performed, recorded or used in advertisements, films, television programmes or computer games. Many of these songwriters are current recording artists with an established, active market for their music. However, EMI has also sought out talented writer/producers who work with the top recording artists. Through this approach, EMI Music Publishing has maintained the world's leading roster of active songwriters whose collective presence in the current charts towers above other publishers. Our prolific songwriters include Alicia Keys, Usher, Jamiroquai, Kanye West, Ms Dynamite, Rob Thomas, Norah Jones, Jay-Z, Cathy Dennis, Guy Chambers, Pharrell Williams, Scissor Sisters, P. Diddy and Sting.



EMI Music focuses on signing and developing recording artists with the potential for growing success over a series of albums. Through targeted marketing and promotion of that music we seek to build an ever-broadening set of fans for each artist. We believe that developing long-term career artists, who have a substantial base of fans eagerly awaiting each new release, is the best way to grow sales and optimise profitability. The following are a few examples from our active roster of career artists:

AbbeyRoad

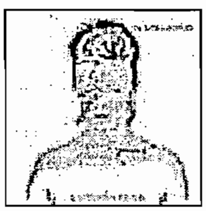
- Robbie Williams has released a total of eight albums and a range of DVD-music videos with EMI. Collectively, these have sold over 40m units since 1997 – and they keep selling. Robbie Williams is recording his next album which is planned for release in the current financial year.
- At the beginning of 2002, Norah Jones was a virtually unknown artist. Since then, she has become a global superstar, selling almost 30m units of her two albums. With this level of sales, along with her record-setting eight Grammy awards won in one year, Norah Jones is one of the top female artists in the world today.
- We have released four albums by Utada Hikaru since 1999 and she is now one of the most popular Japanese artists recording today. Her albums and videos have collectively sold over 25m units.
- Coldplay has developed a massive global fan base through its two albums. The first album has sold 7m units while their second has sold 10m copies so far. Their eagerly awaited third album, *X & Y*, is being released in June 2005.
- Joss Stone, Chingy and Keith Urban are all examples of new artists from our US labels who EMI has broken through to multi-million unit sales success in the last two years, and who also during that time have each had two albums selling in excess of 1m units.

BLUE NOTE

Exploiting our creative content
As the owner of one of the world's best catalogues of music content, EMI has been, and continues to be, intensely focused on maximising the uses, formats and outlets for our recording and song copyrights.

EMI Music
Christian Music Group

The music industry is undergoing a transformation brought about by new digital music formats and channels. While digital technologies enable new, virulent forms of music piracy, they can also offer new legal ways to consume music and are ultimately fuelling consumers' appetite for music. The explosion in digital music catalysed by portable players such as the iconic iPod and mobile phones are helping to transform the consumer experience and creating exciting, new revenue opportunities. So while driving our own business in new directions, we are stimulating other new businesses which will create growth for us all in the future.



In this digital environment, protecting the use and term of our music copyrights is an ever more important element of our strategy. Over the last three years, we have increased our investment in fighting piracy, both online and physical. We have established a team around the world who develop and implement anti-piracy initiatives locally. We are at the forefront of the industry's efforts in this area, raising the level of consumer awareness, lobbying governments, utilising technological countermeasures, and, where necessary, taking legal actions against those stealing or facilitating the theft of music. We believe these efforts are having a positive impact.

Consumer acceptance of digital music since launch has been exceptionally strong. It is estimated that the global recorded music industry has seen digital music go from virtually nothing two years ago to more than 2% of sales in the financial year just ended, and an estimated 3% to 4% of sales in the first calendar quarter of 2005. We recognise that it is very difficult today to forecast the multi-year path of digital industry sales, as these are still early days for digital music.

Consumer-based econometric research commissioned by EMI projects that digital music, in all its forms, could represent as much as 25% of total global recorded music industry sales in five years. While a portion of digital sales will substitute for physical sales, the research finds that the overall effect of digital music is positive for the industry, and could drive a compound annual growth rate of 5% to 2010 for the global recorded music market. Other research companies have estimated similar levels of total music industry growth, given their projected positive impact from digital music.

This type of digital uptake will be beneficial to both arms of our business, fuelling revenue growth and profitability increases. While physical formats will likely be the larger part of our business for many years to come – and there remains a host of opportunities to develop new physical propositions – digital music expands consumers' opportunities to buy music. Stores are open round the clock and product is never out of stock. Shelf space is unlimited, enabling us to offer the full range of our catalogue including the older hits, specialised genres and music in all languages.

Certain costs borne in the physical world such as manufacturing, returns and pick-pack-ship are not relevant for digital products. For physical products, these costs are in the range of 15% to 18% of sales. While there are some digital-specific variable costs and infrastructure investments needed to fully pursue the digital opportunity, it is reasonable to expect that our company will be more profitable as digital sales grow as a proportion of our business.

Developing technologies and business models centred around digital music are presenting new and exciting opportunities on an almost daily basis for our music content. While we cannot yet be precise on the magnitude and timing of this growth, we are pursuing it with our full energy, confident in the strength of our position as the owner of a highly valuable commodity – one of the best banks of music content in the world.

Eric Nicoli
Chairman

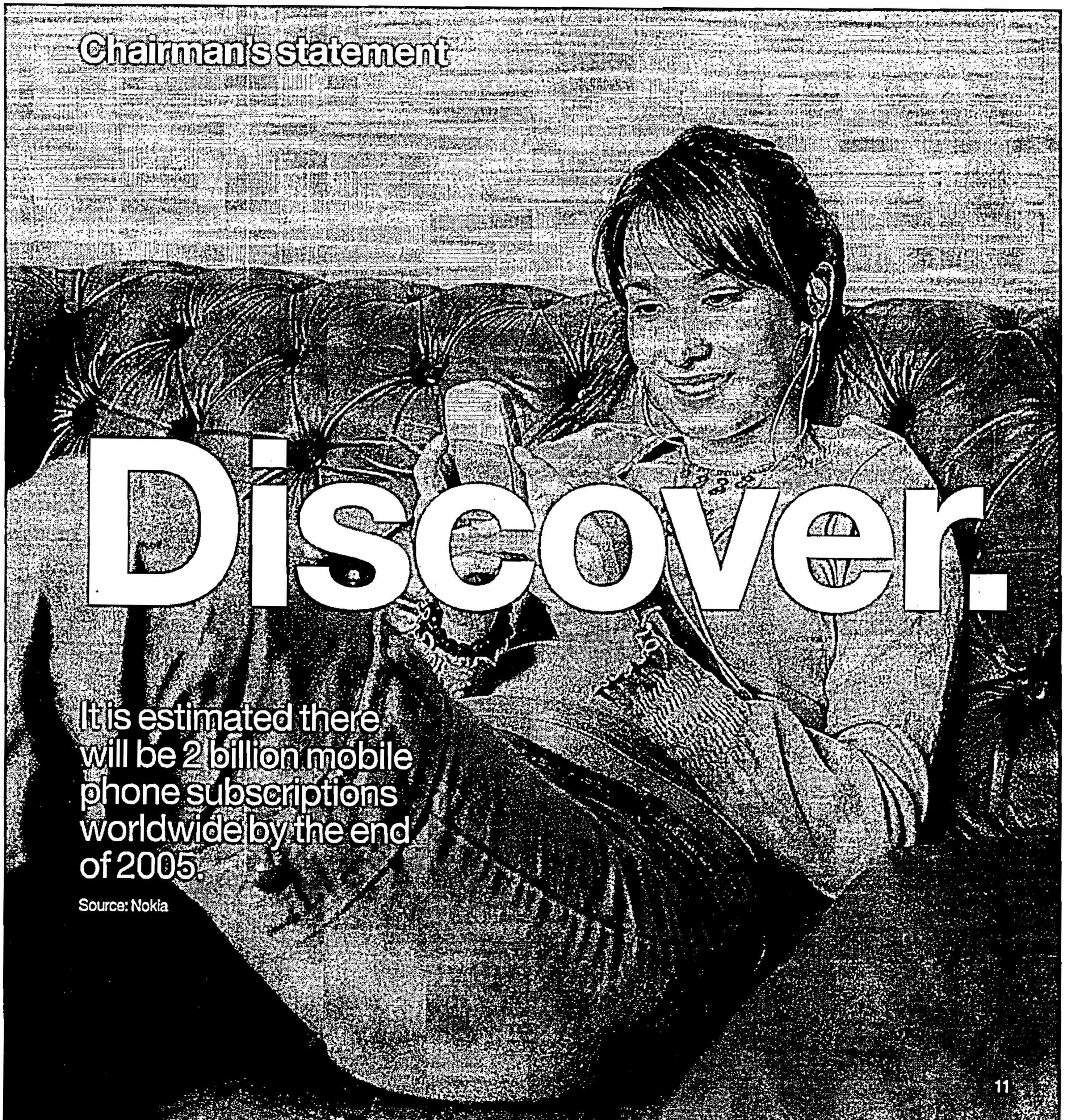
EMI annual report for the year ended 31 March 2005

- Sales in constant currency grew by 4.9% at EMI Music Publishing but fell by 7.4% at EMI Music, resulting in a 5.1% decline in turnover for EMI Group
- Group digital sales more than tripled to £49.7m, delivering 2.5% of total turnover for the year and 3.5% in the final quarter
- Group operating margin increased to 12.0% from 11.8%
- Restructuring initiatives delivered cost savings of £35m in the year, £10m ahead of plan
- Group profit before tax, amortisation and exceptional items was £141.9m, in line with EMI's 15 April trading update
- Full-year dividend maintained at 8.0p per share

Financial summary

	Year ended 31 March 2005 £m	Year ended 31 March 2004 £m
Group turnover	1,942.8	2,120.7
EBITDA (i)	256.8	284.3
Group operating profit (EBITA) (ii)	232.9	249.3
Adjusted PBT (iii)	141.9	163.3
Profit (loss) before taxation	91.8	(52.8)
Adjusted diluted earnings per share (iv)	13.0p	15.5p
Basic earnings per share	7.2p	(9.1)p
Dividend per share	8.0p	8.0p
Return on sales (v)	12.0%	11.8%
Interest cover (vi)	3.0x	3.3x

(i) EBITDA is Group operating profit before operating exceptional items, depreciation and amortisation of goodwill and music copyrights.
(ii) Group operating profit (EBITA) is before operating exceptional items and amortisation of goodwill and music copyrights.
(iii) Adjusted PBT is before operating, non-operating and financial exceptional items and amortisation of goodwill and music copyrights.
(iv) Adjusted diluted earnings per share is before operating, non-operating and financial exceptional items and amortisation of goodwill and music copyrights.
(v) Return on sales is defined as Group operating profit before operating exceptional items and amortisation of goodwill and music copyrights as a percentage of Group turnover.
(vi) Interest cover is defined as the number of times EBITDA is greater than Group finance charges, excluding non-periodic interest and exceptional items.



Discover.

It is estimated there will be 2 billion mobile phone subscriptions worldwide by the end of 2005.

Source: Nokia

Joss Stone
With a further four million albums sold, two Brit awards and a show stopping Grammy performance, Joss Stone recently featured in Gap's US TV campaign for white jeans.

Chairman's statement

Eric Nicoli
Chairman
EMI Group

Global music market conditions continued to improve during the year. A key driver has been the very rapid growth in legitimate digital music. For the year, digital music represented more than two percent of the global music market as compared to last year when sales had just started to take off. We remain confident that digital music will drive the industry forward at attractive growth rates in the coming years and that it will become a significantly larger proportion of our business.

We are also encouraged by trends in global physical music sales, where declines continued to moderate. During the year we saw a considerable improvement in Continental Europe, one of the most challenging regions in recent years. While we still saw a decline in value year-on-year, the magnitude of decline has significantly reduced, particularly in the key German and French markets. We also saw a notable improvement in the Japanese and Latin American markets. The North American market softened during the year, particularly during our second half.

EMI Music's performance for the financial year was impacted by lower than anticipated reorders in the fourth quarter and the rescheduling of two major albums into the current financial year. We believe that the fundamental business under the leadership of Alain Levy has made, and will continue to make, good progress.

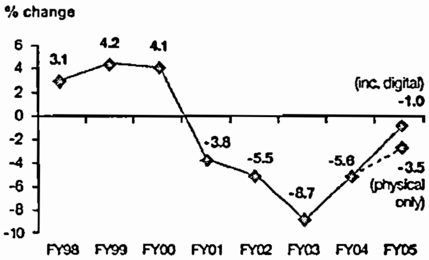
During the year, we successfully completed our announced restructuring initiatives at EMI Music, including the outsourcing of manufacturing in the United States and Europe and the restructuring of some of our labels in particular in Continental Europe. These initiatives delivered combined cost savings of £35m in the year, £10m ahead of plan. The remaining £15m of annualised savings are expected to be realised in the current financial year, bringing the total annualised cost savings to £50m. We continue to be focused on improving our overall efficiency through efforts targeted at procurement and marketing effectiveness together with our IT change programme.

EMI Music has continued to invest in artist development, the core of our business, and has a strong track record of developing artists who have success on a multiple-album basis. Top sellers in the year included albums from Robbie Williams, Tina Turner, Norah Jones, Beastie Boys, Blue, Kylie Minogue, Lenny Kravitz, Chingy and Moby. During the year, EMI Music continued to build upon the initial success of newer superstars, Joss Stone, Keith Urban and Yellowcard. We are continually strengthening our active roster of global superstars which numbers nearly 50 artists.

EMI Music is aggressively pursuing the digital market. During the year, we have worked hard to put in place the right digital partnerships globally to ensure that, as an owner of digital content, we maximise this opportunity.

EMI Music Publishing has further strengthened its position as the leading global music publisher. Martin Bandier and his team continued to sign today's very best song-writing talent during the last financial year, including Eminem and Scissor Sisters, and we continue to lead the industry in our ability to maximise revenues from the songs in EMI's exceptional catalogue.

Global music market
(%)



Source: EMI and IFPI

'A key driver has been the rapid growth in digital music.'

During the year, EMI Music Publishing has been at the forefront of the digital market development including, in December 2004, the ground-breaking agreement between EMI Music Publishing and Sony BMG on new digital products for the US and Canadian markets. We are committed to capturing the full benefits of digital and, looking ahead, we expect both the digital opportunity and improved conditions in the recorded music market to drive attractive growth.

EMI Group

For the Group as a whole, turnover of £1,942.8m compared with £2,120.7m last year. At constant currency, turnover declined by 5.1%. The impact of currency movements lowered turnover by a further 3.3%, with the weakening of the US Dollar against Sterling having a particularly negative impact on reported numbers.

This decline in Group turnover at constant currency was entirely driven by the 7.4% decline in constant currency turnover at EMI Music. EMI Music Publishing grew turnover by 4.9% at constant currency.

Group operating margin increased to 12.0% from 11.8% in the prior year despite the decline in turnover. Operating profit before exceptional items and amortisation (EBITA) was £232.9m compared with £249.3m last year. The Group is not reporting any operating exceptional charges for the year. At constant currency, EBITA declined by 3.5%.

Group profit before tax, amortisation and exceptional items (Adjusted PBT) was £141.9m. The net result after taxation, amortisation, exceptional items and minority interests was a profit of £56.3m compared to a loss of £71.6m in the prior year.

Net debt increased to £829.5m from £748.7m in the prior year. This increase, in part, reflects the £60.3m one-off exceptional cash cost of outsourcing our manufacturing in Europe and the United States and of restructuring some of our labels and the artist roster together with the £42.3m cash cost associated with the acquisition of the remaining 20% of the Jobete song catalogue in April 2004.

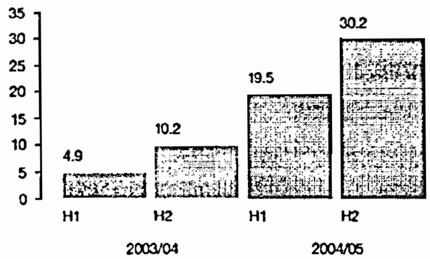
On a per share basis, adjusted earnings decreased to 13.5p from 15.8p in the prior year. On a fully diluted share basis, adjusted earnings were 13.0p.

The Board is recommending a final dividend of 6.0p per share, maintaining a full-year dividend of 8.0p per share and reflecting our continued confidence in the performance of, and outlook for, the business.

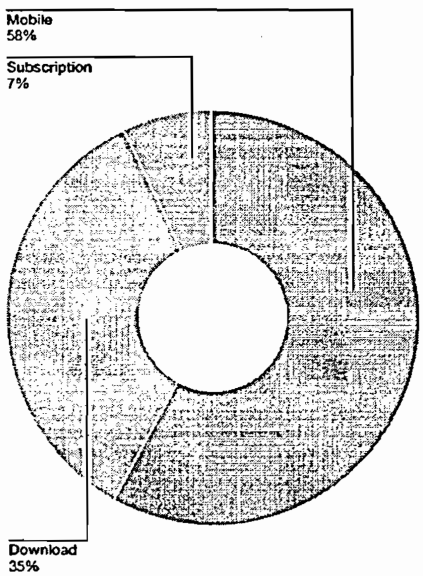
EMI Music

In spite of the improved market backdrop, EMI Music had a challenging year resulting in a disappointing performance. EMI Music delivered turnover of £1,542.1m compared with £1,722.8m in the prior year. At constant currency, turnover declined by 7.4%.

Total group digital sales
(£m at constant currency)



Group digital sales by revenue type



Operating profit (EBITA) was £132.7m compared to £147.4m in the prior year. Effective cost management and the realisation of cost savings from the outsourcing of manufacturing in Europe and the United States and the restructuring of some labels and the artist roster, resulted in the operating margin, before central costs, being maintained at 8.6%.

We saw a significant turnaround in our Continental European business, which enjoyed gains in market share and a major improvement in profitability for the year. Our North American business lost market share, following a successful prior year. We believe this to be a temporary setback and remain committed to continuing the turnaround seen in this region in prior periods. Japan also lost share, largely due to a lighter release schedule and, in particular, the lack of new releases from local superstars. Despite the rescheduling of albums from Coldplay and Gorillaz, the UK delivered a solid performance during the year, reflecting a steady stream of good releases.

EMI Music Publishing
EMI Music Publishing had a very strong year reporting turnover of £400.7m compared to £397.9m, an increase of 4.9% at constant currency.

Operating profit (EBITA) was £100.2m compared to £101.9m in the prior year.

EMI Music Publishing's performance demonstrated the superiority of our song catalogue, creative approach, marketing capabilities and operating efficiency. In particular, through the aggressive marketing of our songs, performance and synchronisation revenues continued to be important drivers of growth during the year as mechanical revenues remained under pressure.

Content protection
We continue to be extremely active in our fight against piracy. During the year, we saw industry lawsuits against illegal file sharers launched across Europe, in addition to those in the US, bringing the total number of lawsuits initiated internationally to nearly 12,000.

The IFPI (the worldwide recording association) has published evidence to indicate that our initiatives are having an impact. Overall, the number of infringing music files on the Internet has dropped from a peak of 1.1 billion, in April 2003, to 870m, in January 2005, a drop of 21%. This decline is even more impressive given that, during the same time period, global broadband penetration, a facilitator of online piracy as well as legitimate digital distribution, grew by 75% from 80m to 140m households worldwide. KaZaA, which used to be the largest and most popular file-sharing service, has seen its user figures drop by approximately 45% (from 4.2m to 2.3m average concurrent users) since the start of the warning and litigation campaign.

Our anti-piracy effort has included, and will continue to include, many initiatives in addition to lawsuits. We are also working closely with governments around the world to introduce and enforce copyright protection. Above all, we believe that the introduction of new and exciting legitimate digital music consumer offerings is a critical element in the fight against piracy.

'Both businesses will benefit from improving long-term recorded music market trends, driven by continued strong growth in digital music.'

Management
In January, we announced a succession plan for EMI Music Publishing and the appointment of a new Group Chief Financial Officer.

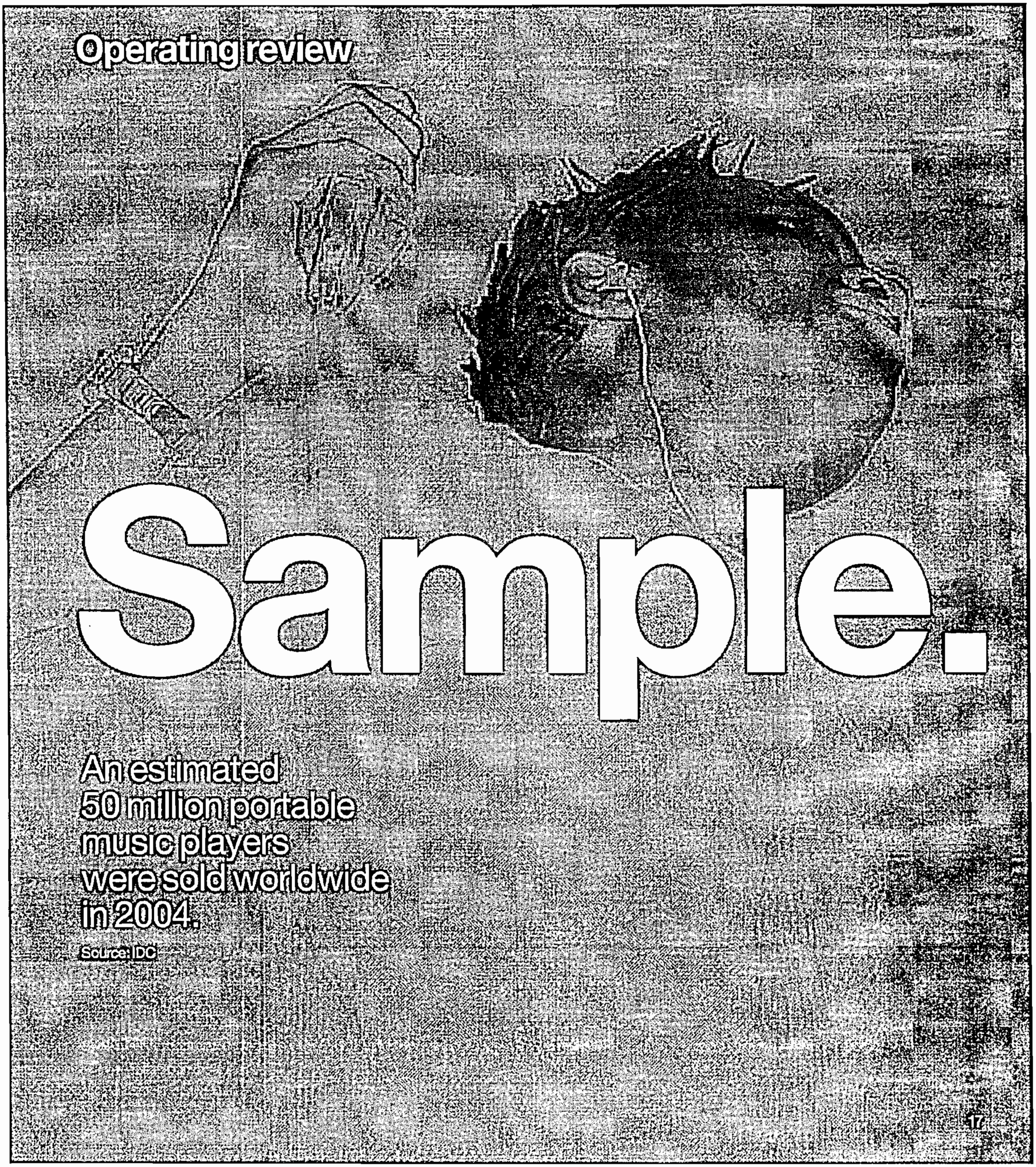
Roger Faxon, who was the Group's CFO, returned to EMI Music Publishing where he is now President and Chief Operating Officer. Roger is to become joint CEO of EMI Music Publishing, with Martin Bandier, in April 2006 and sole CEO in April 2007 when Martin Bandier will become full-time Chairman. In 2008, Roger will succeed Martin Bandier as Chairman and Martin Bandier will act as a consultant to the division for a further three years. With this, I believe we have in place a plan that will ensure a smooth succession and that will enable the EMI Music Publishing management team to continue to drive the business forward. I would like to thank Roger for the enormous contribution that he has made in his three years as Group CFO and on the Board.

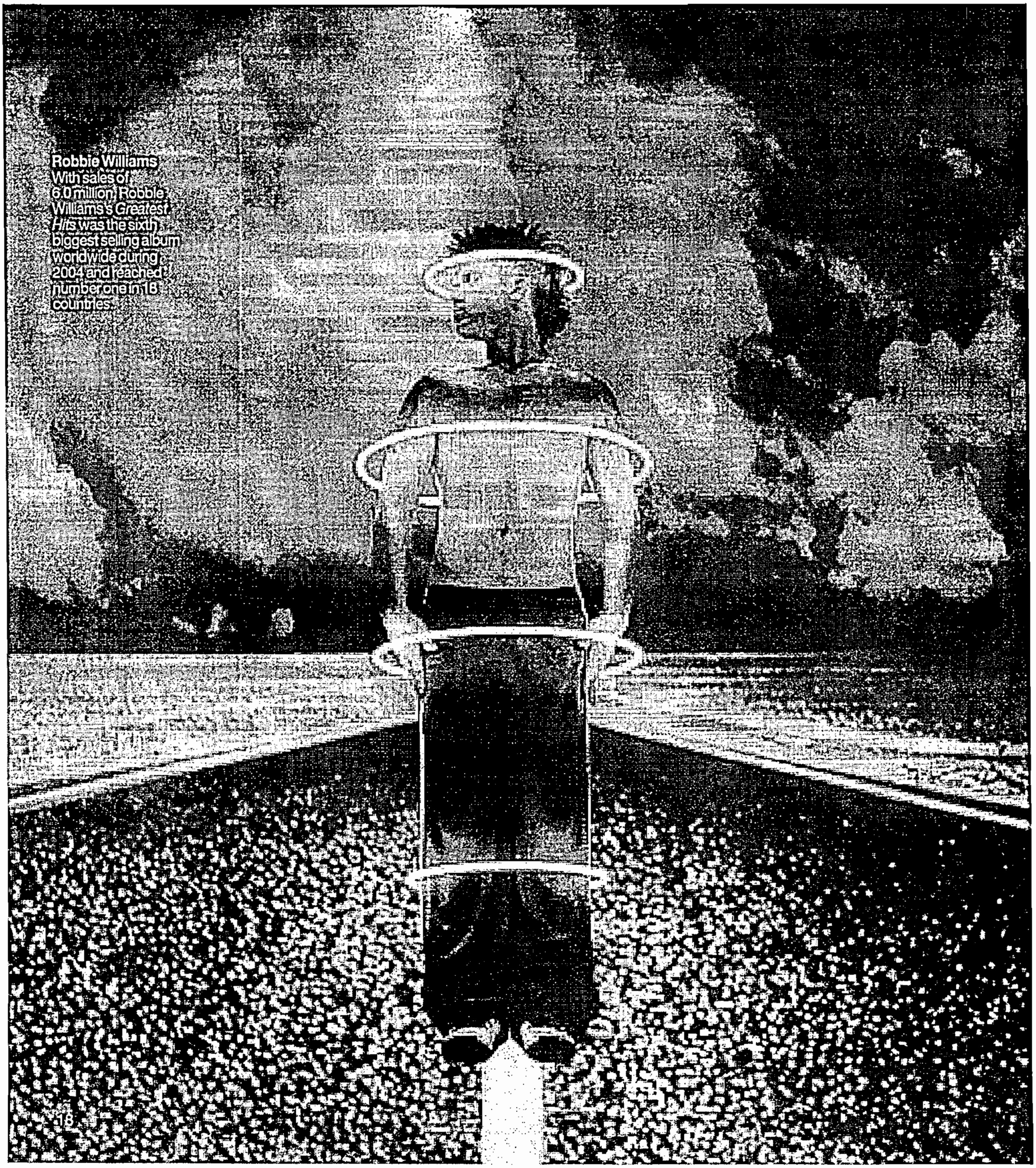
Martin Stewart has taken up the position of Group CFO and, on 1 February 2005, was appointed to the Board of EMI when Roger stood down. I am very pleased to be working with Martin and believe that we have attracted an outstanding executive, with a strong track record in the media sector, and someone who has the talent to help us take the Group to the next level of performance.

In what has been a challenging year for the Group, on behalf of the Board I would like to thank all of my EMI colleagues for their hard work and on-going dedication and commitment to the business. I would also like to thank all our stakeholders for their support and, in particular, acknowledge the remarkable creative accomplishments of the artists and songwriters associated with our Company.

Outlook
Looking to the year ahead, we remain positive on the outlook for the music industry and expect to deliver an improved performance. EMI Music's portfolio of releases should drive market share gain and increased profitability. The positive momentum at EMI Music Publishing should continue. Both businesses will benefit from improving long-term recorded music market trends, driven by continued strong growth in digital music.

Eric Nicoli
Chairman


Operating review
Sample.
An estimated
50 million portable
music players
were sold worldwide
in 2004.
Source: IDC
17



Robbie Williams
With sales of 6.0 million, Robbie Williams's *Greatest Hits* was the sixth biggest selling album worldwide during 2004 and reached number one in 18 countries.

Operating review: EMI Music

Alain Levy
Chairman and CEO
EMI Music

Joss Stone
Mind, Body & Soul
2.7m
The Soul Sessions
1.3m

Tina Turner
All The Best
2.2m

Market overview
EMI Music continues to operate in a marketplace that is undergoing significant change, primarily driven by the rapid development of digital music. Market trends during the financial year lead us to remain positive on the outlook for the global recorded music market and optimistic about the opportunities digital will continue to bring.

The global recorded music market, combining physical and digital music sales, declined by only an estimated 1.0% during the year, a significant improvement on the 5.6% decline reported in the prior year.

While market conditions remain mixed by region, we have seen improving trends in physical music sales year-on-year in nearly all regions. Most encouraging has been the improvement seen in Continental Europe, particularly in the second half of the financial year. This improvement has been driven by a significant reduction in the rate of decline in the key German and French markets. We also saw a notable improvement in the Japanese and Latin American markets. The North American market softened during the year, particularly during our second half.

Music video continued to be a growing segment of the global physical industry, up 6.3% on the prior year. We see increasing market opportunities for higher value-added physical music product that delivers increased music content to consumers and we are working on the development and introduction of new formats and products, for example DualDisc.

Digital
The rate of development of the digital music marketplace during the year has been very rapid and reaffirms our confidence that digital music will represent a very significant proportion of our business in the coming years. Digital market development to date varies significantly by region, with mobile music products dominating the Asian markets, in particular Japan, downloads leading the North American market and a combination of both being seen in the UK and Continental Europe. We believe this variation will lessen in years to come largely as a result of the roll-out of technological advances.

Importantly, a number of large organisations recognise the digital music opportunity and have committed significant resources to drive forward the development of this marketplace, particularly in the form of marketing expenditure. Specifically, in the past year we saw the launch of iTunes in Europe, a new digital download and music subscription service from Yahoo! Music Unlimited in the US, MSN Music on a global basis, Vodafone live! with 3G in the UK, the relaunch of Napster and the introduction of Napster To Go and Rhapsody-To-Go.

As an owner of digital music content, we believe that EMI is extremely well positioned to capitalise on this growth. Our strategy remains to deliver our music content to consumers in any form, at any time and in any place. As such, we have been working very hard to put in place the right digital partnerships globally to ensure that, as well as maximising the digital opportunity, we also secure the right value for our exclusive music content. We are making good progress with our IT investment programme, which is designed to enable us to efficiently capture the increased revenue opportunities we see in the digital environment.

Note: All album sales quoted in the photo captions are for the financial year ended 31 March 2005 unless otherwise stated.

Kylie
Ultimate Kylie
1.4m

Blue
Best of
1.8m

Beastie Boys
To The 5 Boroughs
1.9m

EMI Music delivered digital sales of £35.6m for the financial year, an increase of more than 300% on the prior year with digital sales now representing 2.2% of total revenues.

Performance review
Despite this improved market backdrop, EMI Music had a challenging year because of, in part, the changes to the release schedule and the lower than anticipated reorders in the fourth quarter. This resulted in a disappointing second-half performance, with the portfolio underperforming both our own expectations and the global music market. For the year, EMI Music sales declined by 7.4% at constant currency and market share fell to 12.9% from 13.5% in the prior year. Prior year global market share has been restated to reflect exchange rate movements.

In particular, the change of release dates of two major albums, *X&Y* from Coldplay and *Demon Days* from Gorillaz, from the last financial year to the current financial year, had a significant impact on the results. While we tightly manage the release schedule, recording music is a creative process and there can be instances where changes to the release schedule may adversely affect results for a specific financial reporting period. Both albums will be released in the first quarter of the current financial year and are expected to be major sellers.

We also saw our major second-half releases underperforming, with reorder levels being lower than anticipated in the fourth quarter. We are confident that this is not a reflection of the broader portfolio and we have seen our more recent releases performing well including albums from Moby, Chemical Brothers, Faith Evans and Athlete.

The year had some notable successes. Robbie Williams' *Greatest Hits* was the best-selling album during the financial year, achieving sales of over 6m units. This album was hugely successful on a global basis and was number one in 18 countries. It was the industry's sixth best-selling album worldwide during 2004. In February 2005, Robbie Williams received the British music industry's award for the best song of the past quarter century for *Angels*. Robbie Williams is now recording his next album which is planned for release in the current financial year.

In 2004, Joss Stone developed into a global superstar. Her latest album, *Mind, Body & Soul*, has sold 2.8m units since its release in August and her first album, *The Soul Sessions*, also continued to sell well throughout the year. Joss Stone's enormous talent was further recognised when she received BRIT awards for British Female Solo Artist and British Urban Act.

Norah Jones's albums, *Feels Like Home* and *Come Away with Me*, both released in prior financial years, together sold nearly 4m units during the year.

The *Now* compilations enjoyed success both in the US (where *Now 17* sold 3.5m units) and in the UK and Europe (where three *Now* albums each sold more than 1m units).

As a music-content company, artist and repertoire (A&R) is core to our business and is a key focus for us. Our strategy has been, and continues to be, the development of long-term career artists who will enjoy success on a multiple-album basis. During the

'Our strategy is to develop long-term career artists with multiple-album success.'

Ray Charles
Genius Loves Company
1.3m

Lenny Kravitz
Baptism
1.3m

Keith Urban
Be Here
1.3m
Golden Road
1.0m

Yellowcard
Ocean Avenue
1.2m

year, we built upon the initial success of new superstars, Joss Stone, Keith Urban and Yellowcard, all of whom we believe will have long, productive and successful careers.

Through breaking new artists, we are continually strengthening our active roster of global superstars, which now amounts to nearly 50 artists including Robbie Williams, Coldplay, Norah Jones, Kylie Minogue, Moby, Lenny Kravitz, Daft Punk, Gorillaz, Beastie Boys, Paul McCartney, the Rolling Stones, Tina Turner and Hikaru Utada.

During the year, we continued to focus on superior catalogue marketing, maximising the revenues of our exceptional catalogue of recordings. *Dino: The Essential Dean Martin*, which sold 1m units during the year, is a good example of our ability to repackage prior recordings into new, compelling works. Other top-selling catalogue albums were The Beatles' *1* and The Beach Boys' *The Sounds of Summer*.

Geographic review

North America

Our North American business had a challenging year, following a very successful prior year, resulting in a loss of market share. This disappointing performance in part reflects the slippage of albums from Coldplay and Gorillaz and, also, a number of releases selling less than we had anticipated. Top-selling albums for the year included those from Beastie Boys, Keith Urban, Yellowcard, Chingy, Joss Stone and Anita Baker.

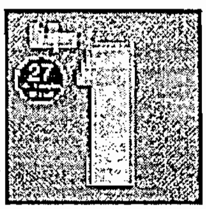
Digital music sales in North America more than doubled during the year. The market continued to be dominated by digital track downloads which, according to Soundscan data, now represent more than 4% of the total US music market in terms of unit sales on an album-equivalent basis. This is broadly in line with the proportion of EMI Music's digital sales in the region. Apple's hugely successful iPod and iTunes continued to drive market development. We have also seen the launch of other digital services including a download service from Microsoft, MSN Music, and subscription-based services such as Napster To Go and Yahoo! Music Unlimited. Mobile music remains relatively undeveloped but we expect this to change with advances in mobile technology in the region.

We continue to focus on building the breadth and depth of our North American artist roster. During the year, we created a new division at our Virgin label, Virgin Records Urban Music, which is headed by the proven hit-maker and producer, Jermaine Dupri. This will add to our range of creative sources in North America which includes the Capitol, Christian Music Group, Capitol Nashville and Blue Note labels.

EMI recognises that building its North American roster and repositioning the business is a multi-year effort which began to show some promising results in the prior financial year. We view the past year's sales performance as a temporary setback; the business remains profitable and we feel that our record labels are on the right path creatively. The current financial year has got off to a good start with, in particular, strongly performing releases from Dierks Bentley and Faith Evans.

The Beach Boys
Sounds of Summer
0.9m

Chingy
Powerballin'
1.1m



The Beatles
1
1.1m

UK & Ireland
The UK & Ireland business gained market share during the year reflecting a consistent stream of good releases. This included successful albums from established artists, such as Robbie Williams, Kylie Minogue, Phil Collins, Blue, Tina Turner and Chemical Brothers, as well as those from developing artists, such as Joss Stone, Athlete and Jamelia.

The overall regional performance was impacted by the change in release timings of albums from Coldplay and Gorillaz, both repertoire from the UK & Ireland business.

Digital saw massive growth in the UK during the year, driven by the launch of iTunes in June 2004 and the development of the mobile music market. In October, EMI Music agreed a deal with The Carphone Warehouse, which made Robbie Williams the first-ever artist to release an entire album plus video content on a memory card that slots straight into a mobile phone. This deal is just one example of the new and exciting music formats and opportunities digital music brings.

Continental Europe
Our Continental European business had a good year, gaining market share and significantly increasing its level of profitability. After a number of very challenging years, we are seeing the benefits from our restructuring initiatives in this region, strengthening what has traditionally been a very solid base for EMI.

In particular, our Italian business went from strength to strength with significant market share gains during the year. Albums from local artists, Vasco Rossi and Tiziano Ferro, were both major sellers. We also enjoyed good market share gains in France and Spain reflecting, in part, the successful implementation of our restructuring initiatives.

Other major-selling albums from local artists included Cali from France, Amaral from Spain and Wir Sind Helden and Helmut Lotti from Germany. Top-selling international artists included Robbie Williams, Blue, Tina Turner, Norah Jones, Moby, Joss Stone and Kylie Minogue.

We have seen strong growth in digital in Continental Europe during the year. In this region, digital sales are predominantly from downloads although we are seeing a good contribution from mobile music products, with a higher proportion than in the US and the UK.

Dean Martin
Dino: The Essential Dean Martin
1.0m

Moby
Hotel
0.9m

S.H.E
Encore
0.9m

Japan

Japan saw a decline in market share for the year, largely as a result of a lighter release schedule and, in particular, the lack of new releases from local superstars. During the year we have taken a number of steps to broaden our Japanese roster and increase the development of new local talent. As always, roster development takes time.

Major sellers during the year included a new release from Nori Makihara, new singles collections from Glay and Yaida Hitomi, and good sell through on Hikaru Utada's singles collection. Top-selling international artists included Beastie Boys, Blue and Norah Jones.

The digital market grew significantly during the year driven by the rapid development of ring tune penetration in the mobile phone market. The launch of new mobile products, such as ring backs and ring videos, provided exciting new consumer offerings.

South East Asia

South East Asia benefited from improving market conditions during the year but this was largely offset by a modest loss in market share. China saw a very significant increase in sales, reflecting aggressive development of local repertoire. We expect China to be a key growth driver for the region in the coming years.

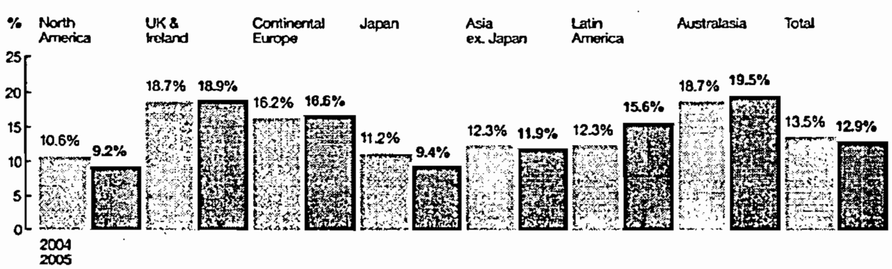
Major-selling local artists during the year included S.H.E., David Tao, ADA Band, Rene Liu and Elva Hsiao. Top-selling international artists included Robbie Williams, Norah Jones and Blue.

Australasia

Our Australasian business gained market share during the year but overall performance was impacted by difficult market conditions. Success in the region during the year was driven by strong local releases including albums from Jet, Missy Higgins and Kasey Chambers. Top-selling international artists included Robbie Williams, Norah Jones and Joss Stone.

The digital market in Australasia remains relatively immature, with the launch of iTunes eagerly awaited and the expansion of the telecoms networks to 3G still to happen.

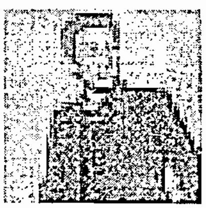
EMI market share by region
Value (%)



Note: EMI share of wholesale including audio and music video products

'Our focus is on developing both local and global artists with representation in all genres.'

Nigel Kennedy
Added to success with a gold album in France.



Leif Ove Andsnes
Pop platinum award for classical release.

Latin America
Latin America had a very good year with market conditions greatly improved and EMI gaining significant market share. Strong sales growth resulted in the region returning to profitability during the year. Mexico, Argentina and Colombia were key growth drivers of the business.

Major-selling local artists during the year included Intocable, RDB, Quintanilla III, Legiao Urbana and Aleks Syntek. Top-selling international artists included Robbie Williams and Tiziano Ferro.

EMI Classics
EMI Classics made good progress during the year. Notable achievements were breaking Nigel Kennedy to gold status in France and the re-signing of Russian superstar violinist, Maxim Vengerov, who is about to record the Beethoven *Concerto* with Maestro Rostropovich and the London Symphony Orchestra.

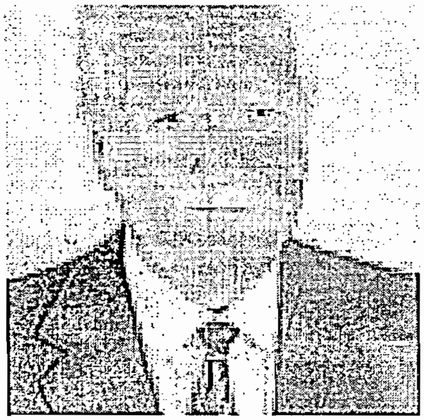
Karl Jenkins signed a long-term contract with EMI Classics and his first two classical albums both went to the top of the UK classical charts. His *The Armed Man: A Mass For Peace* was the first album from a British contemporary classical composer to be certified gold in the UK in over a decade.

Leif Ove Andsnes broke into the pop charts with a platinum certification for his album Mozart *Piano Concertos Nos. 9 and 18* in his homeland, Norway, and Sir Simon Rattle and the Berlin Philharmonic Orchestra built on their reputation as the world's leading conductor and orchestra with a successful tour of Japan and South East Asia.

Norah Jones
Feels Like Home and *Come Away With Me* have sold nearly 30 million after notching up another 2.1 million and 1.8 million respectively this year. Norah is signed both to EMI Music's Blue Note Records and EMI Music Publishing.

Usher
Signed to EMI Music Publishing since the start of his career, last year was the most successful ever for Usher with a string of awards and the world's best-selling album in 2004, *Confessions*.

Operating review: EMI Music Publishing



Martin Bandier
Chairman and CEO
EMI Music Publishing

Pharrell Williams

Eminem

Sting

EMI Music Publishing continued its strong track record of achievement, delivering constant currency sales growth of 4.9% for the financial year. Given the backdrop of a changing and still challenging global music market, this performance demonstrated the superiority of EMI Music Publishing's song catalogue, creative approach, marketing capabilities and operating efficiency. These important attributes position us to take advantage of all of the new and growing uses of songs that are emerging around the world.

As always, a broad range of songs – both current hits and classics created years ago – contributed to this year's performance. Notable successes from recent releases included songs by Natasha Bedingfield, Jamie Cullum, Eminem, Good Charlotte, Alan Jackson, Jay-Z, Kelis, Alicia Keys, Kylie Minogue, Scissor Sisters, Jessica Simpson, Usher, Hikaru Utada, Kanye West and Pharrell Williams.

Through aggressive marketing of our songs, performance and synchronisation revenues continued to be important drivers of growth as mechanical revenues remained under pressure from industry conditions. We also benefited from our continued focus on improving collection efficiency from users and the national collection societies and ensuring proper payment for the use of our copyrights. The use of songs in digital applications, such as ring tones, continued to generate high rates of growth.

Regionally, our North American business continued to deliver good sales gains on a local currency basis. Through our effective song marketing approach, we once again achieved double-digit growth in synchronisation revenue in this business. Our UK business generated revenue gains in all income types, most notably in performance and mechanical revenue reflective of the high chart-share positions achieved in the last year. Sales in Continental Europe were marginally higher than last year at constant currency but mechanical revenues were under pressure in territories such as France, Germany, Spain and Scandinavia, where the recorded music industry remained especially difficult. In Japan, we generated attractive overall sales growth on a local currency basis, driven by gains in synchronisation income as well as higher mechanical income, largely due to the Queen *Jewels* collection and Hikaru Utada.

Mechanical revenue

Mechanical royalties, derived primarily from the sales of recorded music products, now represent less than 45% of our total publishing revenues, down from over 56% of the total five years ago. Mechanical revenues declined by 6.3% at constant currency for the year. Given the time lag in receiving royalties from collection societies, mechanical revenues were negatively affected by the prior period's decline in the global recorded music market and the phasing of receipts.

'We continued our strong track record, growing sales by 4.9%.'

Alan Jackson

Jay-Z

Kayne West

Scissor Sisters

Queen

Ashlee Simpson

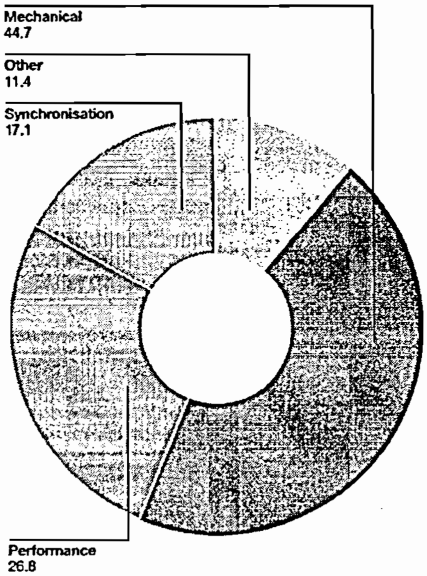
Performance revenue
Performance revenues, earned when a song is performed live on stage, played in a bar or broadcast on the radio or television, grew by 7.7% at constant currency for the year. This high growth was driven by a range of factors including continued expansion of media outlets and channels around the world, improved tracking and collection efforts and strong chart positions for our songs, particularly in pop and urban music. Performance revenues have been a source of growth for EMI in each of the past seven years and this income type now contributes almost 27% of total publishing revenues.

Synchronisation revenue
Our synchronisation revenues continued to generate attractive growth, increasing by 13.2% at constant currency for the year. Synchronisation revenue is generated by the use of songs in audiovisual works such as advertisements, television programmes, films, computer games and in mobile phones. Important synchronisation licences for advertising were signed with companies including General Electric, Philips Electronics, Fisher Price, Pepsi, Maxwell House Coffee and Renault. Recent successes in licensing our songs to television programmes included: *American Idol*, *The CBS Early Show*, *CSI*, *One Tree Hill* and the *OC* and to films such as: *Bridget Jones: The Edge of Reason*, *Coach Carter*, *Hitch*, *Shark Tale*, *Spider Man 2* and *Shrek 2*.

These successes demonstrate that we have continued to achieve effective execution of our strategy of combining a strong customer orientation with a superior understanding of how our songs can improve an audiovisual work. This proactive approach has enabled us to be the best at meeting the creative needs of content creators and music producers. Our synchronisation revenue has grown consecutively for more than ten years and this category now represents over 17% of our total publishing revenues.

Other revenue
Other revenue, which includes income from uses such as print, stage productions, background library, some ring tones and other miscellaneous uses, increased by £15.8m and currently represents less than 12% of revenues. Important drivers of growth in other revenue during the year have been ring tones, stage productions such as *Mamma Mia* and *We Will Rock You*, and payments from enforcing the use of our copyrights.

Music publishing
Revenue sources
(%)



Jamie Cullum

Natasha Bedingfield

Digital

The use of songs in new digital applications is an attractive and fast-growing opportunity. Our digital sales grew sharply during the year, contributing over £14m to our revenues, and were up 90% at constant currency from the prior year. Digital revenues now represent 3.4% of EMI Music Publishing's total revenues, compared to 2% in the prior year. Revenues from digital music are currently classified amongst the various revenue categories – mechanical, performance, synchronisation and other – based on the varying status of these new uses in different countries.

The use of songs in mobile phones, particularly via ring tones, continued to be the most significant early digital revenue contributor. Consumer acceptance of these new musical products has been very positive, with especially high interest in Asia and, increasingly, in Europe. In the US, mobile song use is at a relatively early stage with the potential for very attractive growth in the coming years as phone and compression technologies improve.

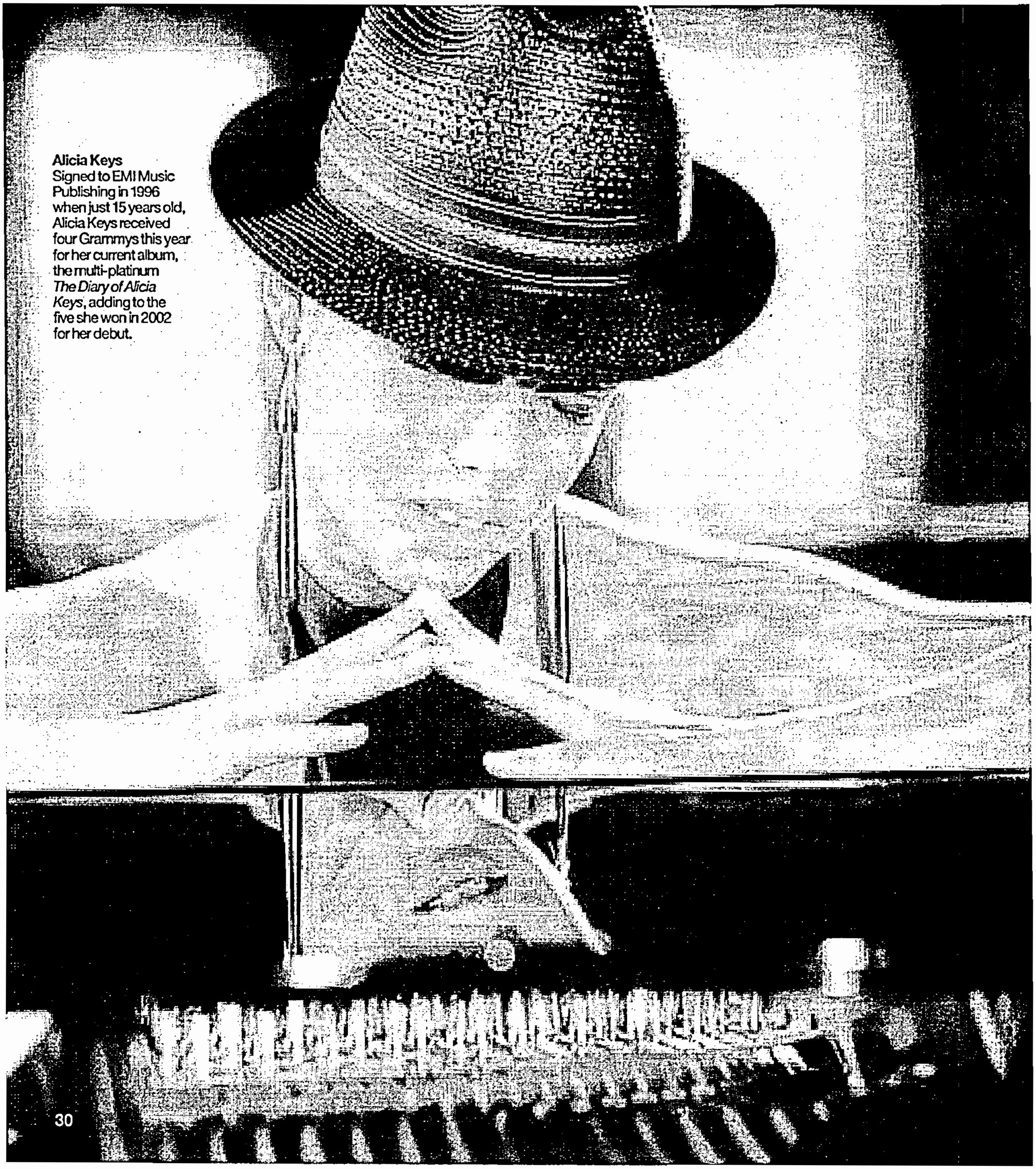
EMI Music Publishing has continued to be at the forefront of maximising royalty generation from digital music products. In December, EMI finalised an agreement with Sony BMG that will facilitate the introduction of a wide range of digital offerings in North America. Ground-breaking agreements such as this are instrumental in driving new digital music product development. The collection societies play an important role in ensuring that publishers and songwriters fully benefit from the many new digital uses. EMI has been working to focus these third parties on faster identification of new product offerings, rate setting and royalty collection from the varied digital song customers.

Progress with some of these third parties has been slower than desired, with the development of the necessary reporting systems still at an early stage.

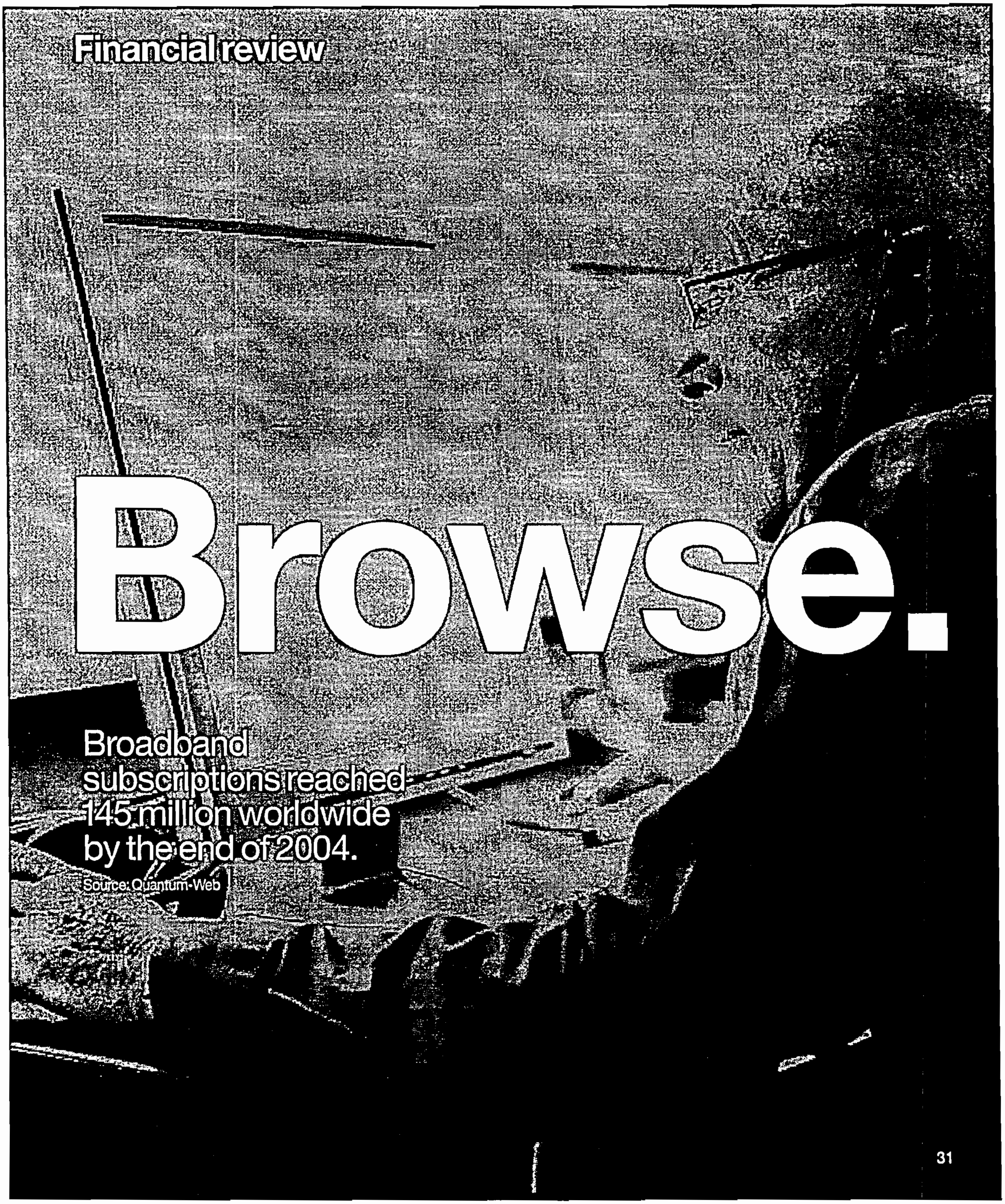
We are well positioned to benefit from the anticipated global growth of other digital song uses such as music and video downloads, subscription services, ring tunes and ring backs. We already have an extensive global network and effective song-based royalty processing systems that, together with our high quality song catalogue, enable us to grow flexibly as each type of digital product gains acceptance.

Key organisational initiatives

We have continued to strengthen our management team during the year. Most notably, Roger Faxon returned to EMI Music Publishing in February, to take on the newly created role of President and Chief Operating Officer. Roger has extensive experience at EMI, both at music publishing and in corporate management roles, as well as within the entertainment industry.



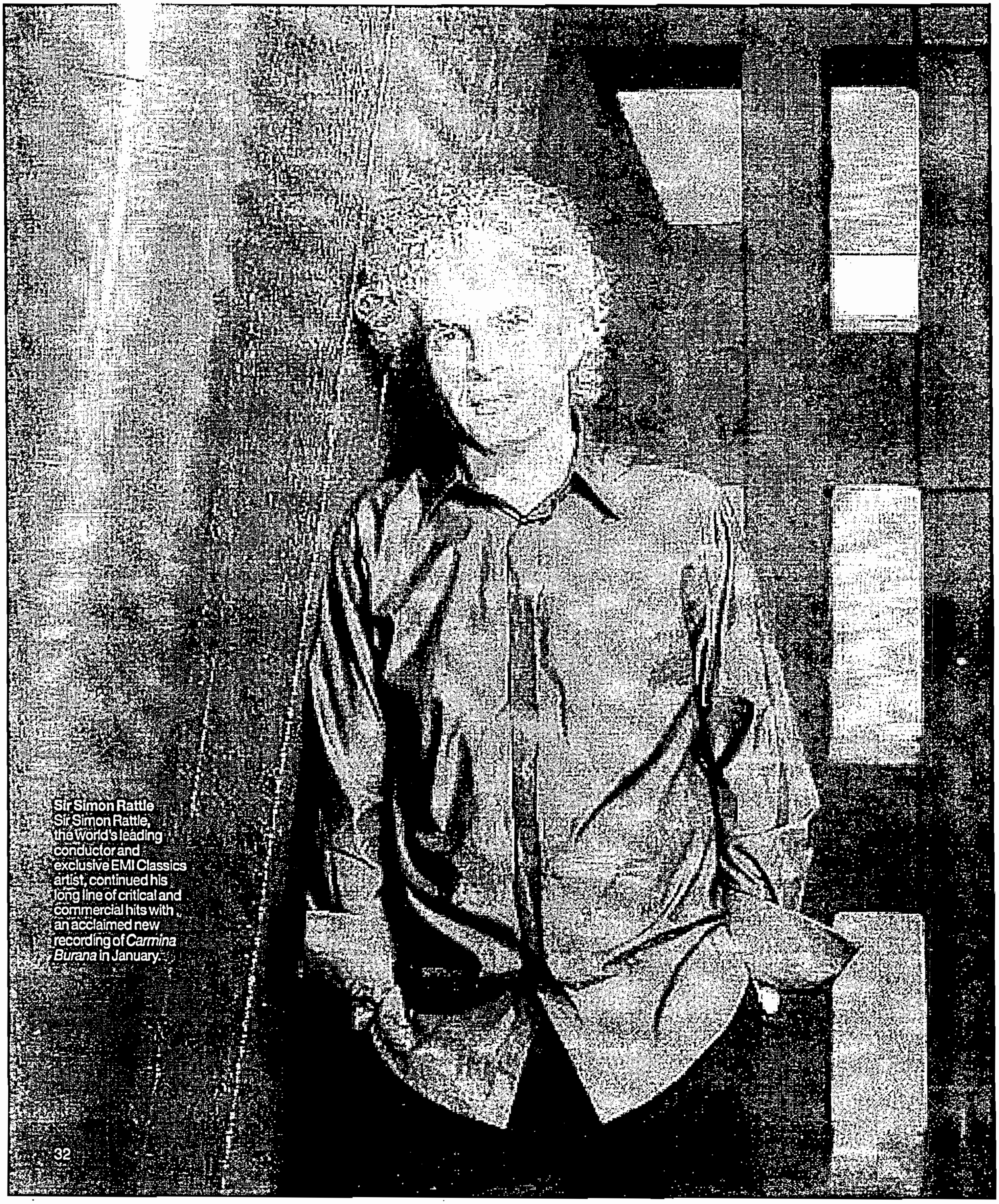
Alicia Keys
Signed to EMI Music Publishing in 1996 when just 15 years old, Alicia Keys received four Grammys this year for her current album, the multi-platinum *The Diary of Alicia Keys*, adding to the five she won in 2002 for her debut.



Browse.

Broadband subscriptions reached 145 million worldwide by the end of 2004.

Source: Quantum-Web



Sir Simon Rattle
Sir Simon Rattle, the world's leading conductor and exclusive EMI Classics artist, continued his long line of critical and commercial hits with an acclaimed new recording of *Carmina Burana* in January.

Financial review

Martin Stewart
Chief Financial Officer
EMI Group

'Costs were tightly controlled and gross margin improved to 35.7%.'

Turnover
Reported Group turnover fell by 8.4% or £177.9m to £1,942.8m. The decline, excluding exchange movement, was 5.1% or £107.1m. The adverse exchange movement was largely driven by a decline in the weighted average rate of the US Dollar against Sterling from $1.70 last year to $1.85 in 2004/05.

At constant currency, turnover in EMI Music fell by 7.4%, declining in all regions apart from Latin America. The disappointing level of reorders for second-half releases and the slippage of two major albums out of the financial year was partially offset by stronger catalogue sales.

At constant currency, turnover in EMI Music Publishing was up on the prior year in all major geographic regions and by 4.9% at a divisional level. The increase in turnover was driven by strong growth in performance, synchronisation and other revenues. Mechanical revenues were below the prior year, driven by the decline in the global recorded music market.

Group digital sales increased to £49.7m from £15.1m in the prior year, an increase of 329% at constant currency. Digital sales represented 2.5% of total Group turnover for the year, with the percentage increasing sequentially during the year from 2.2% in the first quarter to 3.5% in the fourth quarter.

Costs
During the course of the year, all costs were tightly controlled. Administration expenses were reduced by £31.6m and gross margin, after distribution costs, improved from 35.3% to 35.7%.

Royalty and copyright costs, manufacturing and distribution costs together with marketing and promotion costs are all largely variable with turnover. They have, therefore, declined in absolute terms but, as a result of greater efficiencies, there has been a relative improvement particularly in marketing and promotion costs. Group corporate costs were higher in the year due to increased legal and regulatory costs.

The cost structure was improved over the year by the outsourcing of manufacturing in the United States and Europe and the restructuring of some of our record labels, particularly in Continental Europe. These initiatives delivered savings of £35m in the year and are expected to deliver further savings of £15m in the current financial year, bringing the total annualised cost savings to £50m.

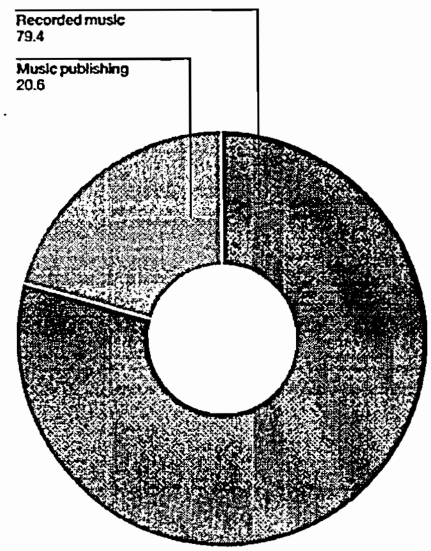
Operating profit
Group operating profit (EBITA) declined by £16.4m or 6.6% from £249.3m to £232.9m. Excluding exchange the decline in EBITA was £8.7m or 3.5%.

EMI Music reported EBITA of £132.7m, a decline of £11.8m or 8.0% at constant currency on the prior year. The EBITA contribution from the Continental Europe region increased significantly in the year but this improvement was more than offset by declines in North America and Asia. Operating margin remained constant at 8.6%, further evidence of the Group's determination not to chase unprofitable sales and its ability to control costs.

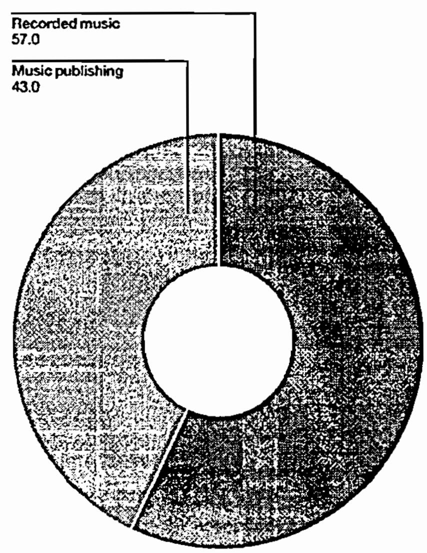
EMI Music Publishing reported EBITA of £100.2m, a growth of 3.0% at constant currency on the prior year. Operating margin declined from 25.6% to 25.0%. This decline in margin was primarily attributable to an increase in allocated corporate costs.

Group operating margin increased again from 11.8% to 12.0%.

Group turnover by business division (%)



Group operating profit by business division (%)



First half and second half comparison

Group turnover for the second half was down 5.9% from the same period last year. Excluding the effects of currency movements, the decline was only 4.7%. During this period, EMI Music Publishing turnover was up on last year in all regions at constant currency. On the same basis, EMI Music also showed growth over the second half in the UK & Ireland, in Continental Europe and in Latin America.

Group EBITA for the second half was down 9.5% from the same period last year. On a constant currency basis, second-half profits were down 8.7%. The divisional geographic comparisons followed the same pattern as turnover; EMI Music Publishing was up in all regions while EMI Music was up only in the UK & Ireland and Continental Europe.

Other items affecting earnings

Group finance charges excluding exceptionals rose by £6.2m to £92.1m. This reflected both a 2.3% increase in average net borrowings as well as increases in interest rates in both the UK and the US, two of our major funding territories.

Adjusted profit before tax fell from £163.3m to £141.9m, driven by the decline in turnover.

The Group tax rate, before amortisation and exceptional items, was 22% against 19.9% in the prior year. The increased rate reflected a movement in profitability towards countries in Continental Europe, where our marginal tax rate is higher, and away from the US, where there are brought-forward losses available for offset.

The charge in respect of the amortisation of copyrights and goodwill at £50.7m was slightly down from last year's total of £50.9m.

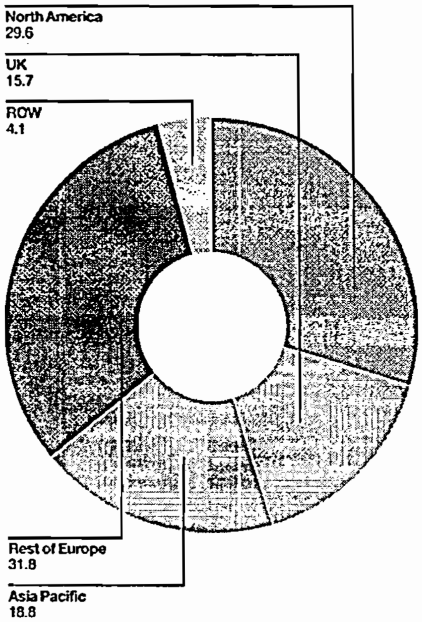
After material operating exceptional costs of £138.3m in 2003/04, there were no operating exceptional costs to report this year. Similarly, after taking non-operating exceptional costs of £16.5m in 2003/04, there was a credit in 2004/05 of £0.8m, being the profit on the sale of properties. There were no finance exceptional costs to report in 2004/05 in comparison with a charge of £10.2m in the previous year.

The minority interest cost has reversed from a credit of £0.9m in the previous year to a charge of £4.3m this year. This is the consequence of the recorded music business in Japan, in which there is a 45% minority, returning to profit after falling into losses after operating exceptional costs last year.

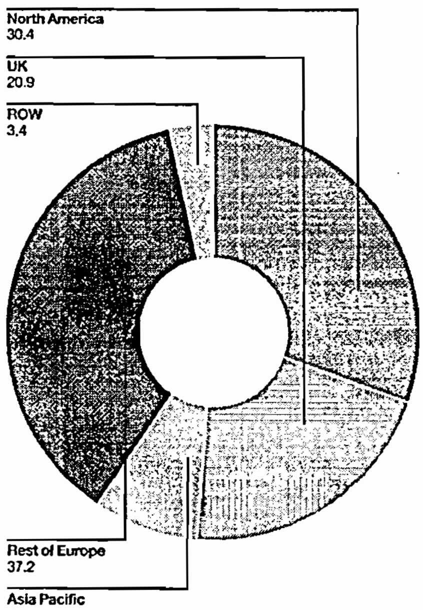
Profit attributable to members of the Holding Company was £56.3m against a loss last year of £71.6m.

Adjusted basic earnings per share were 13.5p, compared with 15.8p. On a diluted basis, treating outstanding convertible debt and outstanding share options as equity, adjusted earnings per share were 13.0p. The Board is recommending a final dividend of 6.0p per share to maintain the total dividend of 8.0p per share.

Group turnover by origin
(%)



Group operating profit by origin
(%)



Cash flow and net borrowings

Improvement in cash conversion and overall cash management remains a key area of focus for the Group. The net cash inflow from operating activities was £221.4m. This represented a significant reduction from last year's inflow of £309.4m, reflecting two primary factors. First, the reduced inflow comes after deducting £60.3m in respect of cash spend on the restructuring programmes announced on 31 March 2004. Secondly, the inflow from improved working capital management was £25.2m for the year, compared to £58.3m in the prior year.

After the net cash inflow from operating activities, we had cash outflows of £101.6m for finance charges, £32.7m for taxation, £108.5m for investment activity (notably the final payment of £42.3m in respect of Jobete and deferred consideration payments in respect of Mute and Hit and Run), and £62.9m for dividends, giving an overall cash outflow before exchange differences of £84.3m. Net of receipts from the issue of shares of £1.7m and a gain on translation of £1.8m, year-end net debt has increased by £80.8m, from £748.7m to £829.5m.

Pensions

EMI maintains a number of defined benefit plans around the world, the largest of which is in the UK As a consequence of the triennial valuation of that plan as at 31 March 2003, the Group resumed annual contributions in respect of future service to the UK fund with effect from 1 April 2004. This resulted in a cash cost of approximately £6.5m with no profit and loss impact due to the accounting treatment as determined by SSAP 24. These contributions will continue until the outcome of the next triennial valuation, as at 31 March 2006, is known and future funding requirements can be determined.

Treasury matters

Funding

On 15 July 2004, the Group signed an additional 364 day £100m committed credit facility with a group of banks. With this exception, the Group's funding sources have not changed during the year, following the major restructuring in the Autumn of 2003. In that restructuring, five interconnected programme components were implemented. The Group issued €425m 8.625% Senior Notes due 2013 and US$243.3m Guaranteed Convertible Bonds, due 2010 unless previously redeemed, converted or purchased and cancelled. The Group cancelled its existing short-term revolving credit bank facilities expiring 2005 and entered into a new £250m revolving credit facility expiring 2007. Finally, the Group prepaid US$56.25m Senior Notes due in 2009 and 2012.

The average term of the net debt at 31 March 2005 was 5.9 years against 7.1 years as at last year end.

‘Improvement in cash conversion remains a key area of focus for the Group.’

Policy and risk
Treasury activity is carried out under a framework of policies and guidelines approved by the Board. The Board reviewed the policy framework during the year and approved the few changes proposed. Control and authority is delegated to the Treasury Management Committee, chaired by the Group Chief Financial Officer.

Financial instruments held by the Group comprise derivatives, borrowings, cash and liquid resources and other financial assets and liabilities, their purpose being to raise finance for the Group's operations. Treasury policies prohibit their use for speculative purposes.

The Group borrows in various currencies and uses swaps, caps and collars to manage interest rate exposure. The Group policy is that a minimum of 25% of the Group's term borrowings should be at fixed/capped rates.

The Group faces currency exposure from exchange rate fluctuation against Sterling. Balance sheet exposures are hedged to the extent that overseas liabilities, including borrowings, provide a natural hedge. Group policy is neither to undertake additional balance sheet hedging measures nor to hedge profit and loss account translation exposure. Transaction exposures are hedged, where there are material items that have a high probability of occurring, with the use of forward exchange rate contracts.

Adoption of International Financial Reporting Standards (IFRS)
The Group expects to publish its first financial statements under IFRS for the six months to 30 September 2005 and for the year ending 31 March 2006.

The Group intends to announce the impact of IFRS on its financial statements in early July. It is anticipated that the areas of most significant impact in 2005/06 will all be non-cash items and will comprise:

- the inclusion of the valuations of the defined benefit pension schemes, notably that in the UK, on the balance sheet together with additional information on equivalent service cost and financing cost in the Profit and loss account;
- other effects on financing charges including revaluation movements on our convertible bond and exchange movements on foreign currency denominated debt;
- the inclusion of share-based pay awards as an overhead cost; and
- the replacement of automatic amortisation of goodwill with annual impairment reviews.

EMI is using Snocap's copyright management technology to enable consumers to share music legally on peer-to-peer networks.

Share.

Jamelia
Parlophone's R&B star Jamelia performed at the UK government's launch of its Music Manifesto at EMI's Abbey Road Studios. EMI is one of the founding signatories of the Manifesto which promotes music education in the UK.

Social responsibility

We believe it is important to run our company in a way which benefits the wider community as well as our shareholders, artists and employees.

We are committed to transparency in the area of Corporate Social Responsibility (CSR) and publish a full social responsibility report every year, which is made available on our website.

EMI continues to be included in both the Dow Jones Sustainability Index and FTSE4Good. This year, we achieved the number two and a 'best in class' ranking respectively in two European surveys of the media sector that were undertaken by socially responsible investment organisations Oekom and Storebrand. We were also named as one of *The Sunday Times* '100 Best Companies to Work For' and one of *Management Today*'s 'Most Admired Companies' for 2004.

The UK's Media CSR Forum, in which we have played an active role since its inception, has helped identify and define some of the key CSR issues for our sector. We will be using the findings of that work to develop our CSR programme going forward.

Employment
Our Social responsibility policy includes the key points of our employment policy framework – equal opportunity, health and safety, open communication and fair reward. Responsibility for management of employment matters rests with each business operation within that framework. We promote five key values in the company: creativity, integrity, accountability, adaptability and empowerment. Our Standards of Business Conduct reinforce aspects of integrity and accountability and are distributed across the company.

Creative businesses such as ours rely strongly on their people. We are working hard to ensure that our investment in staff mirrors our investment in artists by building for the long term. Two good examples of this are EMI Music UK and the Christian Music Group in the US, where all staff on the senior management teams have come up through the company. For the second year running, EMI Music UK was named as one of the '100 Best Companies to Work For' in an annual survey by *The Sunday Times*, moving up to 39th from 73rd position. The results are based on independent and confidential employee surveys covering a range of workplace issues; EMI was ranked in the top 10 for leadership, finding work stimulating and being proud to work for the company.

'We believe that our investment in staff should mirror our investment in artists – building for the long term.'

EMI continues to expand its worldwide management development programme, seeking out the talented people in the business and providing targeted workshops and development support. Approximately 15% of our executives received training this year in areas such as leadership and global thinking. These worldwide programmes are in addition to the training individual operating companies provide for their staff.

Our executive review programme, a formal performance management system first introduced three years ago, has now achieved a global uptake of over 90% and ensures that individual performance targets are set collaboratively with managers and are aligned to business strategy. It also drives training and development plans and is currently being introduced below executive level to enhance development of many more employees.

This is also the third year in which we have measured and reported on workforce diversity and health and safety. With a few exceptions, this information now covers our worldwide operations. Women made up 47% of all staff and 25% of management, ethnic minorities (excluding Asia and Latin America) made up 15% of all staff and 5% of management, and staff with disabilities represented 0.4% of staff and 0.3% of management.

During the year, we had 19 reportable injuries/illnesses (4.4 per 1,000 employees) based on UK standards and an average of 3.3 days' absence from illness per employee. We did not incur any health and safety enforcement notices or convictions.

Community

Our commitment to supporting music education and access to music produced a number of new initiatives during the year. In the UK, we continued our involvement in the development and implementation of the government's Music Manifesto, a strategy to enhance music provision in schools and the wider community. The Manifesto was launched by government ministers at Abbey Road Studios in July 2004, together with Sir George Martin and EMI artist Jamelia.

Keedie
EMI Classics artist Keedie with school children in London as part of the 'Note for Note' scheme.

Together with Yamaha, the BBC, The Prince's Trust and the Music Manifesto, EMI also became a partner in Lloyds TSB's 'Note for Note' – a new community-related marketing initiative launched by the UK bank. Note for Note's aim is to bring more music to schools nationwide; it will raise funds by inviting Lloyds TSB current account customers to 'round down' their credit balance to the nearest pound each month (or donate via their debit card). Customers can nominate up to two schools to receive their donations or choose the Music Boost Fund, which supports schools facing challenging circumstances. Schools can use the money raised for in-school workshops, Yamaha instruments and concert tickets and Lloyds TSB has committed £10m over the next three years to subsidise these offers.

As part of our contribution to the programme, we produced *Bringing Music to your Classroom*, a DVD designed to be a useful teaching aid, which was sent to all 29,000 primary and secondary schools in Great Britain. It includes Simon Rattle's version of Britten's *A Young Person's Guide to the Orchestra* and a collection of interviews and videos from 12 of our classical and crossover artists. EMI Classics UK's artist Keedie was on hand at the Note for Note launch, performing and working with young primary school pupils. The EMI Music Sound Foundation (see below) is administering the programme's Music Boost Fund.

The EMI Music Sound Foundation, the independent charity we established in 1997, has now awarded a total of £2.3m to boost music education in the UK. The Foundation is the largest single sponsor of specialist performing arts schools and is now extending its support to the new category of specialist music schools; it also makes grants for instruments and training to individuals and to non-specialist schools as well as funding seven annual bursaries at music colleges in the UK and Ireland. More information can be found on www.emimusicsoundfoundation.com.

Teach First is a new UK programme that recruits top university graduates to teach for two years in under-resourced secondary schools, while also preparing them to succeed as long-term leaders in careers both inside and outside of education. In its first two years, it is estimated that the programme has made a positive impact on tens of thousands of pupils across 65 London schools. EMI is involved in several ways: providing support to Teach First in adding music teachers to the programme and then providing networking and industry engagement opportunities for them; offering participants summer work placements; and providing business and career coaching to second year participants as they decide what to do next.

In the US, EMI Music equipped a recording studio at the Bronx House in New York, a Music for Youth facility that runs an innovative after-school music programme. Having studio hardware and software installed on site will enable the young people who use Bronx House to do more than just learn about other people's music – now they can explore their creativity through making and recording their own music.

Smokie Norful
Grammy winner Smokie Norful with high school music students.

Unity
In association with the release of the *Unity* album, EMI donated £100,000 to UNICEF.

Swaziland
A choir in Swaziland perform at a UNICEF-backed concert which also featured EMI artist Mzwakhe Mbuli.

EMI in the US was also involved with the Grammy Jazz Ensembles Programme. In association with this year's Grammy awards, 29 talented high school students from the US and Canada travelled to Los Angeles where they met and performed with Grammy-nominated artists. The week included a recording session at EMI's Capitol Studios. While they were there, EMI Gospel artist and Grammy winner Smokie Norful paid them a visit to share some of his knowledge and experience.

The World of Nat King Cole was a CD and DVD linked to a television documentary and developed by EMI Music Marketing in the US for worldwide release; in conjunction with this, a $25,000 donation was made to the VH1 Save the Music Foundation, which is dedicated to restoring music programmes in schools across the country and raising awareness about the importance of music participation for young people.

Health and welfare is another area we support through our community investment and during the year we developed a partnership with UNICEF, the international children's charity. Initially this was through *Unity*, the official album of the Athens 2004 Olympic Games. In association with our release of this CD, EMI Music donated £100,000 to support HIV/AIDS work in sub-Saharan Africa. In January, EMI staff and South African artist Mzwakhe Mbuli joined a UNICEF team on a field trip to Swaziland, to see at first hand how UNICEF uses music and performance arts as a crucial education tool in the fight against HIV/AIDS.

We worked with UNICEF again after the devastating tsunami in Asia, setting up a scheme to match worldwide employee donations. The combination of staff giving, EMI's matching and an initial corporate donation raised more than £230,000 to help with both immediate relief and longer-term development in the affected areas.

To mark the untimely death of South African icon and EMI artist Brenda Fassie, EMI released worldwide a greatest hits compilation spanning her 20-year career. All profits were donated to 46664, the HIV/AIDS education and research arm of the Nelson Mandela Foundation.

EMI Australia has embraced community involvement as a key part of its social responsibility programme and this year launched 'department community days'. By year end, 75% of the company's departments had completed a day working together in the community and the remaining departments had identified their charity and planned the day. Beneficiaries ranged from a telephone/online counselling service for young people and a children's hospice to habitat preservation and restoration groups.

EMI's worldwide charitable cash donations for the year were £1.0m; this was complemented by additional community investment from participation in industry fundraising events around the world, arts sponsorship, staff time and gifts in kind. Based on our UK operations, we continued to achieve the PerCent Standard, a benchmark designed to recognise companies that invest a minimum of 1% of their pre-tax profits in the community.

Environment
We completed our exit from manufacturing in Europe and the US in June 2004. This leaves us with just two plants, in Japan and Canada, and a significant reduction in the environmental impacts that we can manage directly. As an example, our worldwide energy use dropped 44% compared to the previous year, almost entirely due to our exit from CD manufacturing.

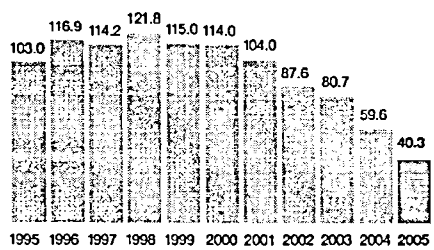
'We aim to ensure that our indirect environmental impacts are managed as responsibly as those from our own facilities.'

We will continue to promote responsible environmental management in our offices, studios, distribution centres and remaining factories, and to report on our progress. We have also asked our CD suppliers in Europe and the US to give us an annual report covering the key performance indicators we use internally to manage the environmental impact of manufacturing. Our aim is to try to ensure that our indirect impacts in this area are managed as responsibly as those from our own facilities.

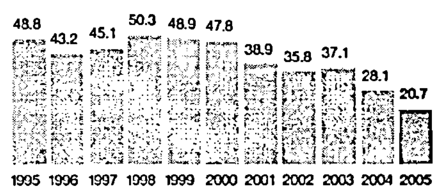
Worldwide, our carbon dioxide (CO_2) emissions from all our buildings dropped by 32% in absolute terms and by 26% when related to turnover. The reduction in CO_2 is less than the drop in energy use primarily because last year's number reflected the use of renewable electricity at our Dutch manufacturing facility.

Within our remaining manufacturing operations we continued to track hazardous waste, solvent consumption and polycarbonate scrap, with all three showing reductions on a per unit basis compared to last year. The dramatic drop in hazardous waste (as shown in the graph) is due to the fact that, historically, the Dutch plant was required to classify a far greater range of wastes in this category. We continued our downward trend in solvent consumption, with a 21% reduction per unit produced. This was, however, approximately 9% above our target, largely due to purchasing solvent stocks late in the year, for use in the following year. Polycarbonate scrap dropped 6% per unit produced, exactly on target.

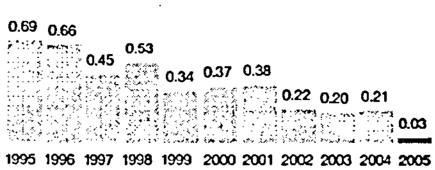
Global warming potential
CO_2 emitted due to energy use in buildings/factories
(kilotonnes)



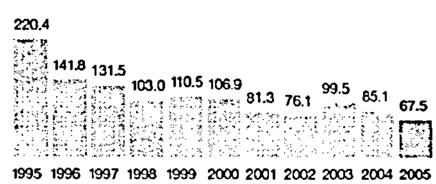
Global warming potential
CO_2 emitted due to energy use in buildings/factories per unit of turnover
(tonnes/£m)



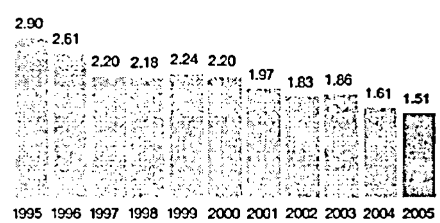
Hazardous waste
(tonnes/million units of output)



Solvent use
(litres/million units of output)



Polycarbonate scrap
(tonnes/million units of CD output)



Collect.

Around a million tracks are now available online, double the number a year ago.

Source:

Executive directors

Eric Nicoli

Alain Levy

Martin Bandier

Martin Stewart

Eric Nicoli (54)
Chairman

Eric Nicoli was appointed to the Board in 1993 as a Non-executive Director, becoming executive Chairman in July 1999. Until 30 April 1999, he was Group Chief Executive of United Biscuits (Holdings) plc (UB), which he joined from Rowntree Mackintosh in 1980. He was appointed to the UB Board in 1989 and became Chief Executive of UB in 1991.

Mr Nicoli is: Non-executive Chairman of The Tussauds Group Ltd; Chairman of The PerCent Club, The EMI Group Archive Trust and of the Trustees of the EMI Music Sound Foundation; and a director of Creative and Cultural Industries Ltd.

Alain Levy (58)
Chairman and Chief Executive Officer
EMI Music

Alain Levy joined EMI and was appointed to the Board in October 2001.

Mr Levy joined CBS International (now Sony Music) in 1972 and, after 12 years, moved to PolyGram (now Universal Music Group), where he became President and CEO in 1991. In both companies he held various posts involving manufacturing, logistics, marketing and management. Mr Levy remained with PolyGram until it was sold to Seagram in 1998.

Mr Levy is a director of David Linley & Co. Ltd and Ilchester Investments Ltd. He also sits on the advisory board of Schroder Venture Partners LLC (formerly Schroder Ventures) in the US and on the European advisory board of Wharton Business School.

Martin Bandier (63)
Chairman and Chief Executive Officer
EMI Music Publishing

Martin Bandier was appointed to the Board in April 1998. He joined EMI Music Publishing as its Vice Chairman in 1989 upon the acquisition of SBK Entertainment World Inc. (SBK), in which he was a founding partner. He was appointed CEO of EMI Music Publishing in 1991 becoming, in addition, Chairman in 1992.

Mr Bandier entered the music publishing business in 1975 as a founding partner of the Entertainment Music Company and the Entertainment Television Company and, together with his partners, created SBK in 1986.

Mr Bandier is a director of the National Music Publishers' Association, the BMI Foundation, the Songwriters' Hall of Fame, the Rock and Roll Hall of Fame and the Syracuse University Board of Trustees. He is also a member of the National Academy of Recording Arts and Sciences.

Martin Stewart (41)
Chief Financial Officer (CFO)

Martin Stewart, who is a Chartered Accountant, was appointed CFO and became a member of the EMI Board on 1 February 2005, having joined EMI on 7 January 2005.

Before joining EMI, Mr Stewart was Chief Financial Officer of British Sky Broadcasting Group plc. He held this post from May 1998 until August 2004, having joined that company in 1996. Between 1991 and 1996, Mr Stewart was employed by PolyGram, latterly as Finance Director of PolyGram Filmed Entertainment.

Non-executive directors

John Gildersleeve

Sly Bailey

Peter Georgescu

David Londoner

Kathleen O'Donovan

John Gildersleeve (60)
Deputy Chairman and Senior Independent Non-executive Director

John Gildersleeve joined the Board in February 2004 when he also became Deputy Chairman and Senior Independent Non-executive Director.

Until February 2004, Mr Gildersleeve was the Commercial and Trading Director of Tesco plc. He joined Tesco in 1965 and became an executive director in 1984.

Mr Gildersleeve is also Non-executive Chairman of Gallaher Group plc and a non-executive director (Non-executive Chairman designate) of The Carphone Warehouse Group PLC.

Sly Bailey (43)
Sly Bailey joined the Board in April 2004.

Mrs Bailey is Chief Executive of Trinity Mirror plc, the UK's largest newspaper publisher. Between 1989 and 2003, Mrs Bailey held various executive posts with the IPC Media Group, joining the Board in 1994 and becoming Chief Executive of IPC Media in 1999. She led the sale of IPC to AOL Time Warner in 2001. From 1984 until 1989, Mrs Bailey worked in sales management for The Independent and The Guardian newspapers.

Mrs Bailey is a non-executive director of The Press Association Ltd. She is also the President of Newstraid, a charity for the distribution and retail news trade.

Peter Georgescu (66)
Peter Georgescu joined the Board in 2002.

Mr Georgescu is Chairman Emeritus of Young & Rubicam Inc., a network of commercial communications companies, having served as that company's Chairman and CEO from 1994 until January 2000.

In addition, Mr Georgescu is a director of Levi Strauss & Co., International Flavors & Fragrances Inc. and Toys "R" Us, Inc. He is also Vice Chairman of the directors of New York Presbyterian Hospital and is a member of the US Council on Foreign Relations.

David Londoner (68)
David Londoner joined the Board in 2003.

Mr Londoner, who is a Chartered Financial Analyst, is the General Partner of The North River Company, L.P., a family investment partnership. He spent most of his career at Schroder & Co. Inc., joining a predecessor firm, Wertheim & Co., in 1972 and leaving when it was sold in 2000.

Additionally, Mr Londoner is a director of Meredith Corporation and a trustee emeritus of the American Museum of the Moving Image.

Kathleen O'Donovan (48)
Kathleen O'Donovan joined the Board in 1997 and has chaired the Audit Committee since 1999.

Ms O'Donovan is a non-executive director of Prudential plc, Great Portland Estates PLC and O_2 plc (and serves on their audit committees) and is also chair of the Invensys pension fund. She will be standing down from the Court of the Bank of England and as chair of its audit committee at the end of her six-year term on 31 May 2005.

Directors' report

for the year ended 31 March 2005

The Chairman's statement, the Operating reviews and the Financial review in this Annual Report together contain details of the principal operations of the Group and their results during the year as well as likely future developments.

Dividends

An interim dividend of 2.0p per Ordinary Share was paid on 1 April 2005. The Board is recommending a final dividend of 6.0p per Ordinary Share, making a total of 8.0p (2004: 8.0p). The final dividend will be paid on 7 October 2005 to Ordinary Shareholders on the register as at the close of business on 9 September 2005, with the shares going ex-dividend on 7 September 2005.

Substantial shareholders

As at 20 May 2005, the Company had been notified of the following interests of 3% or more in its Ordinary Shares:

	No. of shares	% of capital held
The Capital Group Companies, Inc.	36,211,326	4.59
The Goldman Sachs Group Inc. and its subsidiaries	24,224,817	3.07
HBOS plc/Insight Investment Management Limited	38,510,121	4.88
Legal & General Investment Management Limited	27,861,886	3.53
Lehman Brothers International (Europe)	38,045,403	4.82
Prudential plc group of companies	39,992,458	5.06
Schroder Investment Management Limited	73,710,242	9.33
Wellington Management Company, LLP	71,453,854	9.05

Share capital

Changes in the Company's share capital during the year, and details of the authority for the Company to purchase its own Ordinary Shares as at 31 March 2005, are set out in Note 22 on page 91.

Employment policies

Information on the Group's employment policies is given on page 39.

Supplier payment policy

The Company negotiates payment terms with its suppliers on an individual basis, with the normal spread being payment at the end of the month following delivery plus 30 or 60 days. It is the Company's policy to settle the terms of payment when agreeing the terms of each transaction, to ensure that the suppliers are made aware of the terms, and to abide by them. The Company makes payments to its suppliers through its subsidiary, EMI Records Ltd. The number of days' purchases outstanding at 31 March 2005 is calculated at 48 days (2004: 45 days).

Charitable and political expenditure

Charitable, sponsorship and fundraising activities carried out during the year within the Group contributed £1.0m (2004: £1.1m) to charitable organisations and communities around the world. These included UK charitable donations amounting to £0.3m (2004: £0.3m) and £nil (2004: £0.1m) elsewhere in the European Union ('EU'). These donations were given to support charitable organisations and community initiatives in youth and education, arts and culture, and health and welfare.

It is the Group's policy not to make any donations to political parties or to incur any political expenditure, as those terms are defined in the Political Parties, Elections and Referendums Act 2000 ('PPERA'). No such donations were made nor was such expenditure incurred either in the UK, the rest of the EU or elsewhere during the year (2004: £nil).

Research and development ('R&D')

During the year, Group expenditure on R&D totalled £40,000 (2004: £100,000).

Directors
The present Directors of the Company are named on pages 44 and 45. Mrs S Bailey, having been appointed on 2 April 2004, was elected by shareholders at the 2004 Annual General Meeting ('AGM'). Dr H Einsmann retired as a Director at the conclusion of the 2004 AGM. Mr R C Faxon resigned as a Director on 31 January 2005. Mr M D Stewart was appointed as a Director on 1 February 2005. All the other Directors served throughout the year.

Mr A M J I Levy and Mr P A Georgescu retire by rotation at the AGM pursuant to Article 112(A) of the Company's Articles of Association and, being eligible, offer themselves for re-election. Mr Stewart retires at the AGM pursuant to Article 112(B) and, being eligible, offers himself for election. Biographical information relating to the Directors to be elected or re-elected at the AGM is set out on pages 44 and 45.

On 6 January 2005, the Company announced a succession plan for its Music Publishing division. On 1 February 2005, Mr Faxon left the Board and returned to EMI Music Publishing in New York to become its President and Chief Operating Officer, reporting to Mr M N Bandier. As from 1 April 2006, Mr Faxon will rejoin the Board when he becomes Joint Chief Executive Officer of EMI Music Publishing with Mr Bandier. At that time, Mr Bandier, who will continue as Chairman of EMI Music Publishing, will cease to be a Director of the Company. From 1 April 2007, Mr Faxon will become sole Chief Executive Officer of EMI Music Publishing with Mr Bandier remaining as full-time Chairman of the division until 31 March 2008.

No Director had a material interest in any contract of significance subsisting at the end of, or during, the year involving any Group company, other than by virtue of having a service contract. Details of Directors' interests in the shares of the Company are set out in the Remuneration Report on pages 61 to 64.

Under Article 177 of the Company's Articles of Association, the Company provides the Directors and officers of the Company, to the extent permitted by law, with an indemnity in respect of liabilities they may incur in connection with the performance of their duties. From 6 April 2005, UK company law was changed so as to allow companies to indemnify their directors against liability, including costs and damages awarded, in civil proceedings brought by third parties (described in the legislation as 'qualifying third party indemnities') and to fund in advance defence costs. The Company has been advised that with effect from 6 April 2005, Article 177 provided the benefit of a qualifying third party indemnity to each of its Directors.

At the forthcoming AGM, it is proposed to adopt new Articles which will reflect this as well as other recent changes in law and practice. A summary of the principal changes to the Articles is contained in the Notice of AGM accompanying this Annual Report.

Auditor
Resolutions to reappoint Ernst & Young LLP as the Company's auditor and authorising the Directors to determine its remuneration will be put to the forthcoming AGM.

Annual General Meeting
The 2005 AGM of the Company will be held at 2.30pm on Thursday, 14 July 2005 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of AGM accompanies this Annual Report. In addition to the ordinary business of the meeting, resolutions will be put to shareholders to: give authority to the Directors to allot shares; give authority to the Directors to disapply pre-emption rights; give authority to the Company to purchase its own shares; adopt new Articles of Association and authorise a scrip dividend scheme. Also, in order to avoid an inadvertent breach of the law, resolutions will be put to shareholders seeking approval for political donations and expenditure. Further explanations of these matters are provided in the letter to shareholders that accompanies the Notice.

Electronic Proxy Appointment ('EPA')
EPA will again be available for this year's AGM. CREST members may also use the CREST electronic proxy appointment service. Further information regarding EPA is provided in the Notice of AGM and on the Proxy Form.

By Order of the Board
C P Ashcroft
Secretary
23 May 2005

Corporate governance

EMI is committed to high standards of corporate governance. The Board considers that the Company has complied throughout the year with the Code provisions set out in section 1 of the revised Combined Code on Corporate governance which was issued in July 2003 ('the Code'), except as regards the length of Directors' service contracts, which is discussed in the Remuneration report on pages 56 and 57, and the combination of the roles of Chairman and Chief Executive which is discussed below.

Ernst & Young LLP has reviewed the Company's statement as to its compliance with the Code, in so far as it relates to those parts of the Code which the UK Listing Authority specifies for review by the external auditor, and its report is set out on page 67.

The Code was revised for reporting years which began on or after 1 November 2003. The first of the Company's reporting years subject to the revised Code began on 1 April 2004 and is reported on in this Annual Report.

The remainder of this section, together with the Remuneration report, provides an explanation of how EMI applies the principles of good governance as set out in the revised Code.

The Board

As at 31 March 2005, the Board of EMI Group plc comprised nine Directors of whom four were Executive Directors. Following the appointment of Sly Bailey on 2 April 2004, there were six Non-executive Directors. However, on the retirement of Dr Harald Einsmann as a Director at the conclusion of the 2004 AGM, the number of Non-executive Directors returned to five.

All of the Non-executive Directors are considered to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Nomination Committee has conducted an annual review as to whether the Non-executive Directors remain independent against the criteria set out in the revised Code. As reflected in their biographies, which appear on pages 44 and 45, the Directors have a wide and balanced range of experience in multinational and consumer-orientated businesses, as well as an appropriately international spread.

Eric Nicoli is executive Chairman of the Company, which incorporates the role of chief executive officer. Day-to-day executive responsibility for the running of the Company's two main businesses lies with Alain Levy, as Chairman and Chief Executive Officer, EMI Music, and Martin Bandier, as Chairman and Chief Executive Officer, EMI Music Publishing, who each report to Eric Nicoli.

In recent years, and as explained in previous Annual Reports, the Board has concluded that EMI has been best served by the CEOs of the recorded music and music publishing businesses reporting to an executive chairman who complements their music industry experience and expertise. The Board has further concluded that the interposition of another senior executive over the business CEOs would lead to unnecessary duplication, and diffusion of responsibility.

The Board considers that, for the present, the structure outlined above is the most effective for EMI and is in the best interests of both the Company and its shareholders. Furthermore, the Board considers that the nature and level of matters reserved for decision, either to the Board as a whole or to standing committees of the Board, appropriately limit the authority of the Chairman and reflect the combination of the posts of chairman and chief executive officer in one person.

It is the Board's policy that, so long as the Chairman is also the chief executive officer of the Company, the independent Non-executive Directors should comprise a numerical majority of the Board and that the senior independent Non-executive Director should also be either sole or joint Deputy Chairman.

Apart from EMI, Eric Nicoli's only other significant commitment during the year was the chairmanship of The Tussauds Group Limited, a private company.

The Board as a whole considers the appointment of Directors to, and executive appointments within, the Board, based on recommendations from the Nomination Committee which follows a formally approved selection process. The Articles of Association include a requirement that all Directors should submit themselves for election by the shareholders at the AGM immediately following their appointment and for re-election at least once every three years thereafter.

The Board meets at least eight times each year, with additional meetings or contact between meetings as necessary. The programme for each year is approved by the Board. Currently, the programme includes reviews of strategy together with the operations and results of the two main business units, as well as the approval of annual budgets and regular presentations on key business developments, major projects and strategic issues. Actual results for the Group and individual business units are reported to all Directors each month. In the year ended 31 March 2005, the Board met nine times, including a strategy review as part of its October meeting in New York. In coming years, the Board intends to meet at least twice each year outside the UK to allow closer contact with local management.

These procedures, together with other regular and ad hoc reports, aim to ensure that the Board is supplied in a timely manner with information that is appropriate to the discharge of its duties.

The Board's programme also includes management development and succession planning, reviews of the effectiveness of the Board and its principal committees, and an assessment of the performance of the Executive and Non-executive Directors conducted by the Chairman and the Non-executive Deputy Chairman. The review of the Chairman's performance is led by the Deputy Chairman and senior independent Non-executive Director. Additionally, the Board's programme provides for at least two meetings a year between the Chairman and the Non-executive Directors, as well as at least one meeting of the Non-executive Directors alone.

During the year, the effectiveness of the Board and its principal committees was assessed through each Director completing a questionnaire prepared by the Company Secretary and approved by the Chairman and Deputy Chairman. The results were then presented to the Board by the Company Secretary and, following discussion by the Board, agreed changes were implemented. A similar process was applied during the year by each of the Audit, Nomination and Remuneration Committees with the effectiveness questionnaire being approved by the Committee's Chairman. The performance of the Executive Directors and Non-executive Directors was reviewed by the Chairman and Non-executive Deputy Chairman, through completion of an appraisal form, and the results were communicated to the Directors concerned.

Tailored induction programmes are provided for new Directors. In addition to briefings by the Chairman, Company Secretary and Chief Financial Officer, meetings are arranged with a range of corporate and business executives as well as the external auditors and other advisers. Inductions also now include modular sessions covering topics such as key financial and other characteristics of, and operating risks faced by, the recorded music and music publishing businesses. The Board has also instituted a programme of ongoing professional development for Directors with modular sessions approved in advance by the Board.

The Board has delegated certain matters to standing committees, details of which are set out below. However, to ensure its overall control of the Company's affairs, the Board has reserved certain matters to itself for decision. These include the Group's strategic plans and annual operating budgets; significant acquisitions or disposals of companies, businesses or assets, and significant contractual commitments or items of expenditure; together with policies relating to the Group's treasury function, pensions, major litigation, employee share schemes, and environmental and ethical issues. The delegated authorities, together with each Committee's terms of reference and the schedule of matters reserved to the Board for decision, are reviewed each year.

All Directors have access to the services and advice of the Company Secretary, who is appointed by, and may only be removed by, the Board. The Company Secretary advises the Board on all governance matters, through the Chairman. There are also procedures for Directors, in appropriate circumstances, to obtain independent professional advice at the cost of the Company.

The Executive Directors are permitted to take external appointments as non-executive directors but usually only one such appointment may be with another publicly quoted company. They may retain the remuneration from such appointments. All appointments must be approved by the Board to ensure that they do not give rise to conflicts of interest.

The attendance by individual Directors at scheduled and ad hoc meetings of the Board and its Committees in the financial year ended 31 March 2005 was as follows:

Director	Board	Audit	Remuneration	Nomination	Executive
E L Nicoli	9(9)	4*	6*	3(3)	13(13)
M N Bandier	9(9)	n/a	n/a	n/a	12(13)
A M J I Levy	9(9)	n/a	n/a	n/a	12(13)
R C Faxon[a]	7(7)	3*	n/a	n/a	10(11)
M D Stewart[b]	2(2)	1*	n/a	n/a	2(2)
J Gildersleeve	9(9)	4(4)	6(6)	3(3)	n/a
S Bailey[c]	9(9)	4(4)	6(6)	3(3)	n/a
H Einsmann[d]	2(4)	0(1)	1(3)	1(1)	n/a
P A Georgescu	8(9)	4(4)	6(6)	3(3)	n/a
D J Londoner	9(9)	4(4)	6(6)	3(3)	n/a
K A O'Donovan	8(9)	4(4)	6(6)	3(3)	n/a

Figures in brackets denote the maximum number of meetings that each Director could have attended.

* Not Committee members, but invited to attend all or part of the number of meetings indicated.

[a] Resigned on 31 January 2005.
[b] Appointed on 1 February 2005.
[c] Appointed on 2 April 2004.
[d] Retired on 13 July 2004.

Board committees

The principal committees of the Board are the Audit, Remuneration, Nomination and Executive Committees. Reflecting the important role played by the independent Non-executive Directors in ensuring high standards of corporate governance, all the Non-executive Directors are members of the Audit, Remuneration and Nomination Committees. Each committee has written terms of reference and levels of authority which have been amended so as to ensure compliance with the revised Code; these can be viewed on the Group's website, www.emigroup.com, or obtained on request from the Company Secretary. Except in the case of the Remuneration Committee, minutes of meetings are circulated to all Directors.

Remuneration Committee

The role of the Remuneration Committee, which is chaired by John Gildersleeve, is described on page 52. It meets at least three times each year. The Remuneration report on pages 52 to 64 gives information about the Directors' remuneration.

The main responsibilities and activities of the other three principal Committees are as follows:

Audit Committee

The Audit Committee is chaired by Kathleen O'Donovan and comprises all the independent Non-executive Directors. The Committee meets four times each year and its meetings are normally attended by the Executive Chairman, the Chief Financial Officer, the Group Financial Controller, the external auditor and the Head of Internal Audit. In addition, the Company Secretary & Group General Counsel attends in his capacity as secretary to the Committee. Separate meetings are held by the Committee with both the external auditor (at least twice each year) and the Head of Internal Audit (at least once each year) without the presence of Executive Directors or other management. Following each meeting the Committee Chairman reports to the Board any matter of particular importance.

The Committee is authorised to investigate any matter within its terms of reference and, where necessary, to obtain external legal or other independent professional advice. The Committee's responsibilities, which it has carried out during the year, include:

- reviewing, and assessing the effectiveness of, the Group's internal financial controls together with its internal control and risk management systems;

- making recommendations to the Board with regard to: the appointment, removal and remuneration of the external auditor; overseeing the Company's relations with the external auditor; monitoring the external auditor's independence and objectivity; and the effectiveness of the audit process;

- reviewing the internal audit plan for the year; monitoring and reviewing the effectiveness of the internal audit function; ensuring appropriate co-ordination between internal audit and the external auditor; providing adequate resources for the internal audit function and ensuring that it has appropriate standing; and approving the appointment or termination of appointment of the head of the internal audit function; and,

- reviewing the half-year and annual financial statements with particular reference to accounting policies; significant estimates and financial reporting judgements; and the disclosures made therein.

Corporate governance
continued

For each year, the Committee adopts a formal programme which is structured to coincide with key events in the Company's financial reporting cycle. The programme also includes other regular items, for example: a review of the Committee's own effectiveness and that of the internal audit function; a continuing programme of post-investment reviews; the Company's policy for the provision of non-audit services by the external auditor; reviews of material litigation to which the Group is party; a review of treasury policies and the Group's main pension plans; and the review and supervision of the Group's worldwide 'whistleblowing' arrangements. In addition, the Committee's programme during the last year has included regular reports on the Group's preparations for the implementation of International Financial Reporting Standards and an assessment of the effectiveness of the Internal Audit Department which was supported by a review conducted by external consultants.

Each year, the Committee reviews the independence and objectivity of the external auditor with a view to confirming that, in its opinion, the maintenance of objectivity on the one hand and value for money on the other have been kept appropriately in balance. During the past year the Committee has reconfirmed its detailed and formal policy regarding the provision of non-audit services by the external auditor. Services for which the external auditor may be considered under this policy include supporting and reporting on financial representations in public documentation and general advice on accounting and financial reporting matters. Services for which the external auditor may not be engaged, without the prior approval of the Audit Committee, include tax planning advice, employee tax services and consulting services.

Further details of the Committee's role in relation to the annual assessment of the Group's internal control framework are set out below.

Nomination Committee
Chaired by John Gildersleeve, the Committee comprises all the Non-executive Directors and the Chairman. The Committee makes recommendations to the Board on the appointment of Directors and the reappointment of Non-executive Directors on the expiry of their three-year terms of appointment. In addition, the Committee is responsible for making recommendations to the Board regarding plans for succession for both Executive and Non-executive Directors.

A formal process has been adopted by the Committee to make recommendations on both the appointment of new Directors and the re-election of existing Directors. This involves an evaluation of the skills, knowledge and experience of the Board as a whole, consideration of the need for the progressive refreshing of the Board and agreement of a description of the role and capabilities required for an anticipated new appointment. The selection process is led by the Chairman in close consultation with the Non-executive Deputy Chairman and all Directors are offered the opportunity to meet a potential appointee before the Committee meets to discuss the proposed recommendation.

In addition, the Committee reviews the structure, size and composition of the Board, and oversees the process for reviewing the effectiveness of the Board and its principal committees as well as the performance of individual Directors.

The Committee meets at least twice a year and otherwise when required. During the financial year ended 31 March 2005, the Committee met three times. It recommended: the succession plan for EMI Music Publishing involving Martin Bandier and Roger Faxon; and the appointment of Martin Stewart as Chief Financial Officer in succession to Roger Faxon. An external search agency was engaged in connection with the latter appointment of a new Director.

Executive Committee
Chaired by the Chairman, the Executive Committee also comprises the chief executive officers of the Company's two main businesses, together with the Chief Financial Officer. The Committee is responsible for the approval of acquisitions, divestments, capital expenditure and contractual commitments below the level that the Board has reserved to itself for decision, and for certain operational, administrative and other routine matters.

The Committee also regularly reviews and reports to the Board on the performance of the Group's businesses. At least twelve meetings are held by the Committee each year and senior Group executives frequently attend by invitation.

Directors' responsibilities
UK company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group, as well as the profit or loss and cashflows of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that they have complied with these requirements in preparing the financial statements on pages 68 to 96.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern
The Directors believe that, after making enquiries they consider to be appropriate, the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal control
The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The system of internal control is based on what the Board considers to be appropriate to the Group's activities, to the materiality of the financial and other risks inherent in those activities and to the relative costs and benefits of implementing specific controls. It is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, as such, provides reasonable, but not absolute, assurance against material misstatement and loss.

The full Board meets regularly throughout the year and the matters specifically reserved for its approval ensure that the Directors maintain control over significant strategic, financial and compliance matters.

The Group has an established organisational structure with clearly defined lines of responsibility and reporting. The Board has devolved to executive management responsibility for implementing and maintaining the Group's system of internal control. Each business unit operates in accordance with policies and procedures applicable to all of the Group's units.

The Group operates comprehensive annual planning, financial reporting and forecasting processes. The Board formally approves strategic plans and annual budgets. The Group's performance is monitored against budget on a monthly basis and all significant variances are investigated. There are defined authorisation procedures in respect of certain matters including capital expenditure, investments, the granting of guarantees and the use of financial instruments. The Audit Committee also receives, twice yearly, a review of all material litigation undertaken by, or against, the Group's companies and considers the associated risks.

The strength of an internal control system is dependent on the quality and integrity of management and staff. Those executives at senior levels are informed of their responsibilities as to the maintenance of sound systems of internal control. A routine and Group-wide process, which requires key executives and managers to certify their compliance with the Group's policies and procedures, reinforces this integrity.

The internal audit function operates as one Group-wide department which monitors and supports the internal control system and reports to both the Audit Committee and the Group's senior management. The responsibilities of the internal audit function include recommending improvements in the control environment and ensuring compliance with the Group's policies and procedures. The Audit Committee reviews the audit plan prepared by the Internal Audit Department.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place for the year under review and up to the date of this Report. This process is regularly reviewed by the Audit Committee on behalf of the Board and accords with the requirements of Internal Control: Guidance for Directors on the Combined Code.

During the year to 31 March 2005, significant potential risks facing the Group have been assessed and graded in a process managed by the Group Risk Director and involving line and functional management throughout the Group. The controls in place to manage or mitigate each risk were reviewed for adequacy and the processes to monitor and inform the Board about control performance were confirmed.

This assessment is overseen and supervised by the Group Risk Management Steering Committee. This Committee is chaired by the Chief Financial Officer and its members include representatives of the two operating businesses as well as the heads of relevant central functions. The assessment is reviewed by the Audit Committee and is repeated annually. The risk and control assessment is also shared with senior management throughout the Group.

The Board is aware of the disclosure guidelines on social responsibility issued by the Association of British Insurers, and an update on social, ethical and environmental ('SEE') issues is part of the Board's annual programme. Annual performance in these areas is already monitored and publicly disclosed through the Group's Social Responsibility reporting programme. As part of the annual risk review process and the presentation of those results to the Board, account is taken of any issues arising from SEE matters that could cause risk to value; no significant risks of this nature were identified during the year under review. The visibility of SEE matters in the risk-capture process has also been enhanced during the year under review. Appropriate SEE matters are included in the induction programme for Non-executive Directors.

The Group has in place a social responsibility policy as well as specific ethics and environmental policies. A revised ethics policy (Standards of Business Conduct) was issued in 2004. Compliance with the policy is monitored by means of self-certification by senior and middle management and through checks made by the Internal Audit Department. A Social Responsibility Report is published in respect of each financial year and a briefer review of such matters is included in this Annual Report on pages 38 to 42.

The Audit Committee receives additional assurance on the operation of internal control systems around the Group, primarily from the Internal Audit Department, which presents the conclusions of its reviews twice a year. The external auditor also takes internal financial control into consideration as part of its audit. In addition, incidences of control failure and the internal control implications of significant business issues are recorded in a central Control Issues Register, from which a summary report is prepared for the Audit Committee. A report is also prepared for distribution to senior management throughout the Group and appropriate actions are taken to rectify any control failures. Any significant new issues and material changes to the risk environment are reported at the next Board meeting.

Investor relations

The Group is committed to regular and open dialogue with investors. The Chairman and Executive Directors have held, and will continue to hold, discussions with institutional shareholders and analysts. The senior independent Non-executive Director is also available to meet investors, if so requested. In addition, there are general presentations to investors and analysts after the announcement of the half-year and annual results which are simultaneously webcast. From time to time, more tailored presentations on specific areas of importance are made.

Individual shareholders have the opportunity to question the Chairman and other Directors at the AGM and can meet them informally after the AGM. Results announcements and other press releases are made available on the Group's website as soon as possible after their publication.

Actions taken to develop an understanding amongst Directors of the views of major shareholders about the Group include reports to the Board on investor relations. Twice each year, these reports are supplemented by more detailed reviews by the Senior Vice President, Investor Relations, supported by the Company's brokers.

Remuneration report

for the year ended 31 March 2005

Remuneration Committee
The Board has delegated to the Remuneration Committee the approval of the remuneration and employment terms of the Executive Directors and certain other senior executives.

The Committee comprises the Non-executive Directors, all of whom are considered to be independent, and its membership during the year was as follows:

Committee Chairman
John Gildersleeve - *Non-executive Deputy Chairman* and *senior independent Non-executive Director.*

Committee Members
Sly Bailey - *Non-executive Director*
(since her appointment on 2 April 2004).
Harald Einsmann - *Non-executive Director*
(until his retirement on 13 July 2004).
Peter Georgescu - *Non-executive Director*
David Londoner - *Non-executive Director*
Kathleen O'Donovan - *Non-executive Director*

Terms of reference
The key terms of reference of the Committee are as follows:

- to provide the policy framework for the remuneration of Executive Directors, the Company Secretary and other senior executive and operational management (currently approximately 100 individuals in total);
- subject to the policy framework and the Code, to review in detail and approve all aspects of the terms and conditions of employment of each Executive Director and the Company Secretary, including their incentive arrangements, pension rights and any compensation payments;
- to review and approve the base salaries of the most senior direct-line reports to the Executive Directors, together with their remuneration packages, incentive arrangements, pension rights and any compensation payments;
- to determine targets for any performance-related incentive arrangements operated by the Company;
- to ensure the effective administration of any other long-term or share-based remuneration arrangements for employees;
- to ensure that regulations and codes on the disclosure of remuneration are adhered to by the Group; and,
- to review major changes in Group employee benefit structures.

The Committee is also authorised, where necessary, to obtain external independent professional advice.

The full terms of reference of the Committee can be obtained on request from the Company Secretary and are set out on the Company's website at www.emigroup.com.

Attendance at meetings and advisers
During the year, the Committee continued to use New Bridge Street Consultants LLP which it appointed as its adviser. This firm has provided material advice to the Committee to assist it in developing and monitoring policies for remunerating senior employees throughout the Group. The major areas for advice were Executive Directors' remuneration, determining competitive levels and forms of pay for Executive Directors and senior executives, reviewing incentive arrangements for that group, reviewing all share-based and long-term incentive plans and advising the Committee of developments and best practices for remuneration and applicable corporate governance requirements. New Bridge Street Consultants LLP has not, during the year, provided any other services to the Group. The letter of appointment in respect of New Bridge Street Consultants LLP can be viewed on the Group's website, www.emigroup.com, or obtained on request from the Company Secretary.

The Committee schedules three meetings during each year but also holds additional meetings as and when material matters arise for discussion. During the last financial year, the Committee met on six occasions.

Only Committee members are entitled to attend meetings of the Committee as of right, although the Executive Chairman (the 'Chairman'), the Human Resources executive charged with supporting the Committee (Carol Separovich as Vice President, Rewards Management) together with the Company Secretary & Group General Counsel (in his capacity as Committee Secretary) are generally invited to attend so as to assist and advise the Committee on matters under consideration. Other executives may be invited to attend in respect of specific issues where their guidance may be of assistance to the Committee. In this regard, during the last financial year the Chairman & Chief Executive Officer of EMI Music ('CEO EMI Music') and the Vice Chairman, EMI Music attended two meetings and one meeting, respectively, to provide material assistance and advice with regard to their division. None of these attendees participated in any discussion relating to his or her own remuneration.

In monitoring the level and mix of remuneration packages, the Committee has access to a number of music and general industry remuneration surveys, covering both local and international data. The Committee takes into account factors such as the nature, size, complexity and international profile of the surveyed companies relative to EMI; it also seeks such specific advice from external consultants as it considers appropriate.

Policy statement on Directors' remuneration

Background
The Committee recognises that, as a major UK-listed company, EMI should comply with the highest standards of corporate governance and, wherever it is appropriate to do so having regard to the wider interests of shareholders, UK remuneration best practices. Accordingly, the Committee periodically reviews the Group's remuneration practices against such standards and practices while recognising that the achievement of success in the highly competitive worldwide music market depends critically upon the Group's ability to compete for the management talent necessary to secure, develop and promote successful recording artists, composers and songwriters. The Group's remuneration policies, therefore, will continue to reflect the need to attract, retain and motivate top-calibre international management in the context of remuneration levels and practices in the international music and entertainment industry, many of which are set in the US, the indigenous repertoire of which, in the year ended 31 March 2005, amounted to 46.7% of worldwide record sales.

The Group's remuneration policies also recognise that the music publishing and recorded music businesses operate in distinct market places. The level and form of remuneration will continue to be tailored to the different market places in which the Group competes and to recognise the importance of creative talent to the overall success of the Group.

The remuneration packages of the Executive Directors have been designed to help them attain, and encourage them to retain, long-term interests in EMI's shares, and thereby align their interests with those of shareholders. Performance-related elements, in the form of annual bonuses and share-based long-term incentives, represent a significant proportion of the total annual remuneration opportunity, typically providing at least two-thirds of potential remuneration for the achievement of stretching performance targets.

Overview
The Group revised certain aspects of its remuneration policies during 2003. Notably, the introduction of the Executive Share Incentive Plan ('ESIP') was approved by shareholders at the 2003 Annual General Meeting. Revisions were also made to certain Executive Directors' service contracts to bring them into line with developments in best practice. The Committee considers it appropriate to apply the same policies in 2005 and, therefore, has made no changes to the general policy reported in the Annual Reports for the last two years.

Remuneration arrangements for Alain Levy
As reported last year, following consultation with major shareholders, the service contract of Alain Levy, CEO EMI Music, was amended as from 1 April 2004. The revised arrangements were designed to secure Mr Levy's services for EMI until at least March 2009 and are as follows:

- base salary was increased to £1.0m pa;

- the annual bonus opportunity was increased from two times salary to three times salary, by adding to the operating margin criterion a further potential one times salary opportunity by reference to turnover performance relative to the recorded music market (with nothing payable for below-market levels of turnover performance and increasing on a sliding scale); and,

- as originally contemplated when the ESIP was introduced, Mr Levy will not receive any share awards under that scheme until May 2006. It is envisaged that he will then participate on a comparable basis to other Executive Directors, with any awards being on the same basis (in terms of performance criteria, etc) but with awards based on a higher multiple of salary. It is currently intended that Mr Levy would receive annual grants of options over shares worth three times base salary and awards of performance shares worth one and a half times salary each year compared with, currently, two times salary and one times salary, respectively, for the Chairman and for the CFO.

The amended contract also contains two other changes from the previous agreement, namely, the enhancement of severance following a change of control (from 12 to 24 months) has been removed and, should Mr Levy wish to resign, the notice required from him has been increased from six to 12 months.

The Board and the Committee remain committed to a high proportion of the total earning opportunity being performance-dependent and only paying bonuses where stretching performance criteria have been satisfied.

Remuneration arrangements for Martin Stewart
Martin Stewart joined EMI on 5 January 2005 and became a Director on 1 February 2005 when he took up the appointment of CFO. In order to secure his appointment, the Committee agreed to the provision of a base salary of £525,000 pa. The first review of this salary will take effect from 1 July 2006.

For the period from 5 January to 31 March 2005, Mr Stewart was eligible for a discretionary pro-rata bonus, based on the rules of the Company's Executive Incentive Plan ('EIP'). Commencing from 1 April 2005, Mr Stewart will participate in the EIP, with his maximum annual bonus entitlement being 100% of his eligible base salary but with no entitlement to any guaranteed level of bonus.

On commencement of his employment, Mr Stewart received the following awards under the rules of the ESIP in respect of the period to 31 March 2006:

- an initial option grant over 519,116 shares with an exercise price of 252.833p per share; and,

- an initial performance share award over 259,558 shares.

Annual grants and awards will be made to Mr Stewart in accordance with the rules of the ESIP in each subsequent year starting with 2006, for which there will be no guaranteed awards. Such grants and awards will be made in accordance with the Committee's policy at the relevant grant date.

Extended contract and revised remuneration arrangements for Martin Bandier
The employment agreement of Martin Bandier, CEO EMI Music Publishing, was extended and revised as of 1 February 2005. The revised arrangements are designed to secure Mr Bandier's services as full-time Chairman of EMI Music Publishing until 31 March 2008, as well as securing an orderly succession plan for that business. From 1 April 2006 to 31 March 2007, Mr Bandier will become joint Chief Executive Officer of EMI Music Publishing with Roger Faxon. As of 1 April 2007, Mr Bandier will cease to be joint Chief Executive Officer but will remain as full-time Chairman until 31 March 2008. Thereafter, Mr Bandier will act as a consultant to EMI Music Publishing for a further three years.

Mr Bandier will cease to be a Director of the Company on 31 March 2006. Until his retirement as a Director, Mr Bandier's base salary will continue at its current level of US$3,331,635 pa and his annual performance bonus at target and maximum performance will continue to be 50% and 80% of base salary, respectively. The one-off long-term incentive arrangements for Mr Bandier, referred to in previous annual reports and set out in the tables accompanying this report, will continue in place for the period to 31 March 2006. From 1 April 2006, when Mr Bandier becomes joint Chief Executive Officer with Roger Faxon, his base salary will reduce to US$1,800,000 and his annual performance bonus at maximum performance will increase from 80% to 100% of base salary.

The Committee believes that these changes, which are designed to secure an orderly succession to the leadership of EMI Music Publishing, as well as the benefit of Mr Bandier's continued advice and assistance to the business thereafter, are appropriate.

Base salary
The Group believes pay should be closely linked to performance.

Base salary levels are determined by the Committee having regard to the experience and performance of the individual executive, the performance of the Group as a whole over the preceding year, data regarding external salary levels for comparable positions, internal relativities and wage inflation elsewhere in the Group. The Committee seeks to ensure that, in respect of industry-specific roles, base salaries are generally set no higher than the median for the music industry and, in the case of non-operational roles, has appropriate regard to general industry data.

Recognising the requirements of good corporate governance and a desire to constrain fixed costs to the advantage of all shareholders, base salaries for certain operating executives, most notably (and even after the revisions to his arrangements) for the CEO EMI Music, have been kept below industry market levels. In these instances, in order to deliver competitive overall levels of pay, the balance of the overall remuneration is weighted more significantly towards long-term incentives than is the case with EMI's major competitors.

The base salaries of each Executive Director on 31 March 2005 were as follows:

E L Nicoli	£721,500 pa
M N Bandier	US$3,191,220 pa
A M J I Levy	£1,000,000 pa
M D Stewart	£525,000 pa

Salaries are revised annually with any increases generally taking effect on 1 April, for Mr Levy and Mr Bandier, and 1 July for Mr Nicoli and Mr Stewart. Other than Mr Levy and Mr Stewart, the Executive Directors received an increase in the range of 3% to 4.5% in 2004 which was consistent with the overall increase for other executives and staff. Mr Stewart's first review will take effect from 1 July 2006.

Annual bonus
Annual bonus opportunities for Executive Directors remain at the same levels as last year. For the Chairman and the CFO, the maximum bonus opportunity is 100% of base salary, whilst that for the CEO EMI Music is 300% of base salary. In the case of the CEO EMI Music Publishing, the maximum bonus opportunity remains at 80% of base salary, with 50% bonus at target performance.These bonus opportunities are paid in cash following the approval of the accounts for the relevant year.

The performance criteria are tailored to individual positions and to ensure that bonuses are appropriate in all the circumstances. Subject to the Committee's discretion and within the limits described above, bonuses are determined as follows:

- for the Chairman and the CFO, two thirds of the bonus opportunity is earned by reference to the attainment of stretching financial targets, split equally between pre-set profit and cashflow targets for the Group, with the remaining one third being determined by reference to strategic objectives set on a 'balanced-scorecard' basis;

- the annual bonus for the CEO EMI Music Publishing is based on pre-set targets relating to the division's economic profit (ie taking into account the value of the investment in the business) from year to year, reflecting EMI Music Publishing's objective of achieving sustained profit growth while providing an adequate return on invested assets; and,

- since 1 April 2004, the annual bonus for the CEO EMI Music has been calculated so that two thirds of his opportunity is measured by reference to pre-set operating profit margins, with the other third determined by the division's sales performance relative to the recorded music market.

The Committee's policy is not to pay transaction-related bonuses. Details of the bonuses achieved during the year by individual Executive Directors are set out on page 60.

Long-term incentive arrangements
Of the Executive Directors, the Chairman and the CFO currently participate in the ESIP. It is anticipated that both the CEO EMI Music and Martin Bandier, as the then joint CEO EMI Music Publishing, will participate in the ESIP as from 1 April 2006.

Under the terms of the ESIP, regular annual awards of both share options and performance shares are made, with awards vesting after a fixed three-year period subject to the achievement of demanding pre-vesting performance conditions.

The Committee determined that, for the first award made under the ESIP in 2003, options over shares worth two times base salary should be awarded, together with an award of performance shares worth one times base salary. This policy was implemented by the Committee throughout the last financial year and the Committee intends to continue to apply it in the current financial year. However, the mix of options and performance shares remains under review and may vary from year to year.

One third of the number of share options granted may be exercised if adjusted (ie normalised) earnings per share ('EPS') growth, over the three years following grant (with no retesting opportunities), exceeds an average of the increase in the Retail Prices Index ('RPI') plus 3% pa; two thirds of the number of share options granted may be exercised if normalised EPS growth exceeds an average of RPI plus 5% pa; and all share options granted may be exercised if normalised EPS growth exceeds an average of RPI plus 7% pa (with straight-line interpolation between the points). To the extent that the targets have not been fully satisfied, options will lapse.

Performance share awards vest by reference to the Company's relative Total Shareholder Return ('TSR') performance over a fixed three-year period (with no retesting opportunities). TSR is a measure of the return to a shareholder (in terms of share price appreciation, assuming reinvestment of any dividends) over a fixed period. 25% of the shares subject to an award will vest if the Company's TSR, relative to the companies in the FTSE Mid-250 Index (excluding investment trusts) as at the date of award, is at least at the median of that group. This will increase, on a straight-line basis, to full vesting if the Company's TSR is at least at the upper quintile (ie within the highest 20%) of that group. The share price used for calculating both the opening and closing TSR of the Company and each company in the comparator group for the three-year period will be assessed using three-month average figures. In addition to satisfying the TSR performance condition, awards will only vest to the extent that the Committee considers that the Company's TSR performance reflects the underlying performance of the Company over the period.

The EPS and TSR targets, which were selected following extensive discussions with the Company's leading institutional shareholders and which received the support of an overwhelming majority of those shareholders, are considered to be both demanding and stretching over the medium term in light of the prevailing business climate.

The EPS growth targets were chosen because profit growth (as measured through EPS) is currently a key objective within the Group and is considered to be the most appropriate measure of financial performance.

The FTSE Mid-250 Index was chosen as the TSR comparator group as there have been no, or insufficient, similarly sized independently quoted music companies to provide a more bespoke comparator group and, therefore, it was felt appropriate to compare the performance of EMI with the constituents of the FTSE Mid-250 Index on the basis that, from an investor perspective, shareholders have the choice of investing in EMI as compared with other UK-quoted companies of a similar size. If the Company becomes a constituent of the FTSE 100, the constituents of that Index would be used for subsequent grants.

In all the circumstances, the Committee considers these two measures, taken together, to be the most appropriate method of assessing the success of EMI over the medium term and, accordingly, considers them to be appropriate performance conditions. The Committee reviews these targets each year, prior to awards being made, to determine whether they remain appropriate.

The EPS measure is fully diluted EPS adjusted to take account of exceptional items and excluding amortisation. EMI's performance against the EPS and TSR targets will be monitored by the Committee, which will assess the extent to which the targets have been achieved. The EPS calculations will be verified by the Company's external auditor while the TSR calculations will be undertaken by New Bridge Street Consultants LLP. The Committee is conscious that the basis for calculating EPS is changing in light of the move from UK GAAP to International Accounting Standards and will ensure that any EPS performance conditions are measured on a consistent basis and as originally intended.

The Committee also confirms that the Company has at all times complied with the share dilution limits as previously agreed with shareholders.

As reported in previous years, the CEO EMI Music Publishing and the CEO EMI Music had one-off long-term incentive arrangements covering, in Mr Bandier's case, the period from April 2001 to 31 March 2006 and, in Mr Levy's case, the period from October 2001 to 31 March 2006. These arrangements are summarised in footnotes (b), (c) and (d) on page 63 and footnote (e) on page 64, respectively. Neither Mr Bandier nor Mr Levy will participate in the ESIP for the duration of these one-off arrangements. As part of the amendments to their service agreements, both Mr Levy and Mr Bandier will participate in the ESIP from 1 April 2006.

All UK-based Executive Directors are entitled to participate in the Group-wide ShareSave scheme on the same terms as other UK-based Group employees. Shareholder consent was obtained at the 2004 AGM for the renewal of the ShareSave scheme and also to introduce another tax-sponsored all-employee plan, the Share Incentive Plan ('SIP'). The operation of these plans will be at the discretion of the Committee, although Executive Directors will be eligible to participate on the same basis as other staff. No grants under the SIP were made during the year.

Details of the awards granted to Executive Directors under the ESIP and the ShareSave scheme are contained in the section on Current long-term incentive schemes on page 62. Details of share options and other share awards granted in previous years in accordance with the schemes then applying and the performance criteria attaching to those grants are contained in the section on Closed long-term incentive schemes on pages 63 and 64.

Benefits in kind
Benefits and perquisites are based on general industry practice and typically include a car or car allowance together with life assurance, retirement, disability and healthcare plans. Further details are set out on page 60.

Pension arrangements
For UK-based Executive Directors, the policy is to provide pension benefits through a 'final salary' arrangement with an accrual rate of 1/30th. Where possible, this is achieved through the Group's Inland Revenue-approved occupational pension scheme. Except in the case of the CFO, an unapproved defined contribution scheme is utilised to provide benefits on salaries above the Inland Revenue-imposed earnings cap, with the level of contribution being set by reference to an actuarial assessment of the value of a 1/30th arrangement. Benefits are based on base salaries only and specifically exclude bonuses. For the CFO, a pension allowance is provided, initially at the rate of 40% of annual earnings above the earnings cap but increasing by 1% per year until it reaches 50% of annual earnings above the cap.

For the US-based CEO EMI Music Publishing, the Group's retirement plan contributions are made with respect to both salary and annual bonus, consistent with normal practice in the US and the Group's benefit arrangements for all US employees.

The Committee is currently reviewing the impact of the changes to the tax treatment of UK pensions due to take effect in April 2006. It is not envisaged that the Company will meet any additional tax liabilities of executives and the review should, therefore, not result in an increase in overall cost to the Company.

Directors' service contracts
The Code recommends that notice or contract periods should be set at one year or less. It is the Group's policy to achieve that, where possible.

The Committee endorses the principle of mitigation of loss on early termination of a service contract and recognises the advantage of service contracts including an explicit calculation, subject to mitigation, of compensation payable upon early termination, other than for misconduct or in other circumstances justifying summary termination. The Committee's policy is that such compensation should generally be calculated by reference to base salary, annual bonus at target level and other benefits, including pension contributions, for the notice period or unexpired term of the service contract. The contract should also include an explicit obligation to mitigate and to offset earnings from alternative employment undertaken during the notice period or unexpired term of the contract against all or part of the compensation payment.

However, the Committee is conscious that fixed-term contracts of three or more years are common for senior executives in the global entertainment industry and such agreements often include no (or only a limited) obligation to mitigate. The Committee, therefore, considers that it is in the best interests of EMI and its shareholders to retain the flexibility to compete for top executive talent, where necessary, through the ability to offer contract terms in excess of one year. However, as an alternative, the Committee may agree compensation payments calculated without mitigation in order to limit contract terms or notice periods to one year.

Chairman and CFO - Eric Nicoli and Martin Stewart
The service contracts of Mr Nicoli and Mr Stewart, dated 11 April 2003 and 5 January 2005, respectively, are terminable by the Company on one year's notice.

In the case of gross misconduct or other circumstances justifying summary dismissal, the Company may terminate their service contracts without payment of compensation. Termination by the Company in other circumstances, without the required notice being given, entitles the departing executive to compensation, calculated on:

- his then base annual salary (currently £721,500 pa for Mr Nicoli and £525,000 pa for Mr Stewart) for one year; plus,
- the value of retirement benefits and either the continued enjoyment of, or the value of, benefits in kind provided to him for one year (the accrued value of such retirement contributions and the benefits in kind would have been £408,298 for Mr Nicoli and approximately £218,004 on an annualised basis for Mr Stewart had either one of them been dismissed on 31 March 2005); plus,
- a sum in respect of his lost annual bonus opportunity, being 50% of his maximum bonus for the period from the date of his departure to the end of the contractual notice period.

Their entitlement to such compensation is subject to both a duty to mitigate and, also, offset for any earnings which they derive from other employment during the unworked part of the notice period for which they have been compensated.

CEO EMI Music - Alain Levy
Mr Levy's service contract, which commenced on 15 October 2001 and was amended as of 1 April 2004, allows the Company to terminate his employment at any time without notice. If termination is for cause (as defined in the contract), no compensation is payable. If termination is without cause, or Mr Levy terminates the agreement for good reason (for example, breach by EMI), he is entitled to a lump-sum severance payment based on one year's pay, calculated using:

- his then base annual salary (currently £1,032,000 pa); plus,
- the value of retirement benefits and either the continued enjoyment of, or the value of, benefits in kind provided to him (the accrued value of such retirement contributions and the benefits in kind would have been £529,661 had he been dismissed on 31 March 2005); plus,
- the average annual bonus earned by him over the last three financial years (£730,474 in respect of years ended on or before 31 March 2005).

Mr Levy accepted a basic contract term of one year, which is significantly less than competitive music industry practice, as well as a base salary and potential cash bonus at levels lower than those for equivalent positions in other major record companies. In recognition of this, there is no obligation on Mr Levy to mitigate or to offset against the compensation payment any earnings from alternative employment following termination.

CEO EMI Music Publishing - Martin Bandier
Mr Bandier's employment agreement, dated as of 1 February 2005, is with a Group subsidiary in the US and is governed by New York state law. This agreement extends Mr Bandier's employment beyond 31 March 2006, which was the term date for the prior employment agreement between the same parties dated as of 1 April 2001. However, Mr Bandier will cease to be a Director of the Company on 31 March 2006. The contract allows the employing company to terminate his employment at any time without notice. If termination is for cause, no compensation is payable. If termination is without cause, or Mr Bandier terminates the contract for good reason, he is entitled to compensation based on two years' salary and benefits. The Committee considers that these terms for Mr Bandier are appropriate in view of competitive practice in the US, where he is resident and where EMI Music Publishing is headquartered, and the fact that the service contract is intended to secure his services until age 69. Additionally, following a change of control of the Company, Mr Bandier is entitled to terminate his service contract after a one-year transitional period and to receive a compensation payment as described below.

Where compensation is payable in respect of termination of Mr Bandier's service contract, it is specified to be the aggregate of:

- his then base annual salary (currently US$3,331,635 but reducing to US$1,800,000 as of 1 April 2006) for the succeeding two years; plus,
- continuation for two years of medical and dental benefits and retirement plan contributions (the accrued value of such retirement contributions and medical and dental benefits for the year ended 31 March 2005 would have been US$1,982,551 if his employment had been terminated on that date); plus,
- a sum in respect of lost annual bonus opportunity namely, 50% of annual base salary for each of the succeeding two years.

While, reflecting competitive music industry practice, there is no obligation on Mr Bandier to mitigate, the continuation of salary and bonus for 12 months after termination is subject to offset in respect of salary and bonus earned by Mr Bandier from a subsequent employer in the 12 months following termination; and the continuation of benefits is also offset to the extent of similar benefits provided by the subsequent employer.

Roger Faxon
Roger Faxon ceased to be a Director on 31 January 2005 but continues to be employed by EMI Music Publishing.

Mr Faxon's service agreement, dated as of 1 April 2003, allowed EMI to terminate the contract at any time without notice with a specified severance payment calculated on the same basis as if he were entitled to one year's notice. In the case of gross misconduct or other circumstances justifying summary dismissal, the Company could terminate his service contract without payment of compensation. Termination by the Company in other circumstances, without the required notice being given, entitled him to lump-sum compensation, calculated on:

- his then base annual salary (US$812,500 pa) for one year; plus,
- the value of retirement benefits and either the continued enjoyment of, or the value of, benefits in kind provided to him for one year (the accrued value of such retirement contributions and the benefits in kind would have been US$407,839 had he been dismissed on 31 January 2005); plus,
- a sum in respect of lost annual bonus opportunity, being 50% of his maximum bonus for the period from the commencement of the financial year in which he departed to the end of the contractual notice period.

In the light of competitive music industry practice, and in recognition of Mr Faxon's agreement, when he was promoted to CFO, to reduce his basic contract term from two years to one year, there was no obligation on him to mitigate, or to offset against the compensation payment any earnings from alternative employment during the year following termination. However, the Company's obligation to continue to provide insurance benefits would cease to the extent that similar benefits were provided by another employer following termination.

As Mr Faxon remained employed within the Group, on his ceasing to be a Director, no amount was paid to him by way of compensation for loss of office or under the provisions of his service contract as set out above.

Non-executive Directors
Non-executive Directors do not participate in the Group's bonus scheme or long-term incentive plans and are not eligible for membership of any of the Group's pension plans. Their fees are payable wholly in cash.

In view of the greater responsibilities of Non-executive Directors under the Combined Code together with their strategic contribution and increased time commitment, annual fees of £50,000 per annum have been paid since 1 January 2004. These fees will be reviewed every two years with the next review date being due on 1 January 2006. John Gildersleeve, the Deputy Chairman and senior independent Non-executive Director, receives an additional £40,000 per annum, reflecting his larger role and his chairmanship of the Remuneration and Nomination Committees. Kathleen O'Donovan receives an additional £10,000 per annum for chairing the Audit Committee. No other additional fees are payable for membership of Committees or otherwise.

The Non-executive Directors have letters of appointment from the Company which are available for inspection at the Company's registered office or on request and are also provided on the Company's website at www.emigroup.com. Each Non-executive Director is appointed for a specified term of an initial period to the next AGM after appointment and, subject to election at that Meeting, for a further period ending at the third AGM held thereafter. Subsequent reappointment is subject to endorsement by the Board and to re-election by the shareholders. Each Non-executive Director's date of appointment as a Director and his or her most recent date of re-election at an AGM is shown below:

	Date of appointment as a Non-executive Director	Date of letter of appointment	Date of last election or re-election at AGM
J Gildersleeve	28.2.04	25.4.05	13.7.04
S Bailey	2.4.04	25.4.05	13.7.04
P A Georgescu	1.9.02	25.4.05	9.7.03
D J Londoner	13.5.03	25.4.05	9.7.03
K A O'Donovan	21.11.97	25.4.05	13.7.04

Their appointments may be terminated at any time or in the event that they are not elected or re-elected by shareholders in accordance with the Company's Articles of Association. On termination, a Non-executive Director is entitled to any accrued but unpaid Directors' fees, but not to any other compensation. The new Articles, if adopted, provide that a Director will retire, if so agreed, earlier than three years from the date of last reappointment and also, if agreed, will not stand for re-election. This will ensure that the Company can, where appropriate, reappoint Non-executive Directors for periods which reflect corporate governance guidelines and that there will be consistency between the terms of appointment and the relevant provisions of the Articles.

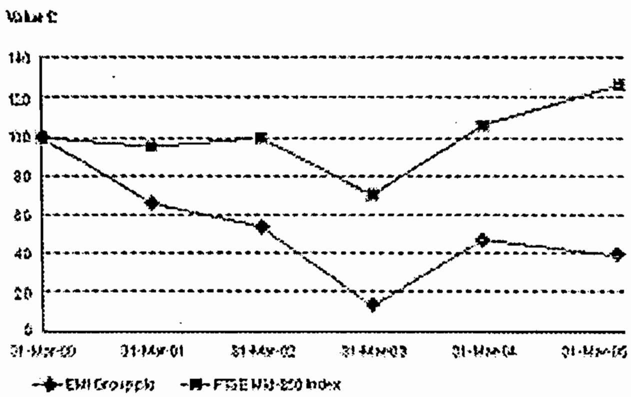
Remuneration report

continued

Total shareholder return performance graphs

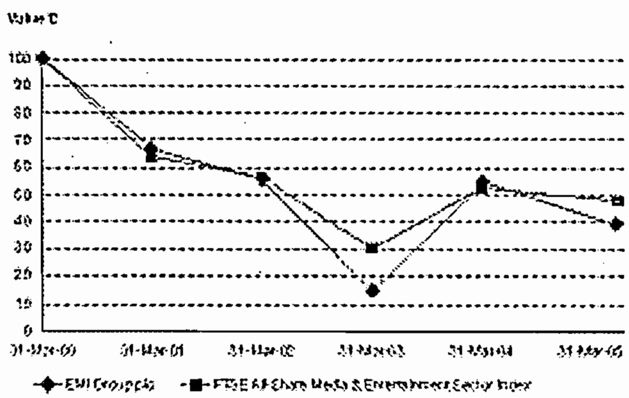
Under the Directors' Remuneration Report Regulations 2002, UK-listed companies are required to include a graph indicating their TSR (ie share price growth assuming reinvestment of any dividends) performance over the last five years relative to a recognised equity index. Consistent with the approach adopted last year, in the absence of suitable comparators, the Committee has again elected to show EMI's performance related to the FTSE Mid-250 Index. The FTSE Mid-250 Index (excluding investment trusts) was the comparator group for the TSR performance condition for last year's awards under the ESIP and will continue to be so for this and subsequent years unless the Company re-enters the FTSE 100.

Total shareholder return
Source: Thompson Financial



Additionally, this year the Committee is including the equivalent graph as against the FTSE All-Share Media & Entertainment Sector Index. This illustrates the volatility of the various indices particularly as, at the beginning of the five-year period, UK media stocks were at a relative peak as compared to other sectors.

Total shareholder return
Source: Thompson Financial



The graphs above look at the value, at the end of March 2005, of £100 invested in EMI Group plc on 31 March 2000 compared with the value of £100 invested in the FTSE Mid-250 and FTSE All-Share Media & Entertainment Sector Indices. The other points plotted in the graphs are the values at intervening financial year ends.

Policy on outside appointments

Executive Directors are permitted to take external appointments as non-executive directors but usually only one such appointment may be with another publicly quoted company. The remuneration from such appointments is retained by the Director and the table below sets out such amounts for the year ended 31 March 2005. All appointments must be approved by the Board to ensure that they do not give rise to any conflicts of interest.

	Name of Company	Fees received £
Executive Directors:		
E L Nicoli	The Tussauds Group Ltd	55,002
M N Bandier	National Music Publishers' Association	1,297
A M J I Levy	Schroder Venture Partners LLC	6,757
M D Stewart[a]	-	-
Former Executive Director:		
R C Faxon[b]	-	-

[a] Appointed as a Director on 1 February 2005.
[b] Resigned as a Director on 31 January 2005.

Share ownership guidelines

The Committee has adopted a formal policy that requires Executive Directors to hold shares in EMI worth at least two times their respective salaries. Executive Directors are required to build up this shareholding by retaining shares with a value of at least 25% of the after-tax gain arising on the maturity of any long-term incentive awards.

Pensions

The UK-based Executive Directors are executive members of the EMI Group Pension Fund which provides them, on normal retirement at age 60, with a pension of between 1/60th and 1/30th of the earnings cap for each year of membership, depending upon benefits built up prior to joining the Company. Members contribute 4% of the cap. On death, there is a spouse's pension of two thirds of the member's pension (ignoring the impact of any exchange of pension for a lump sum on retirement), plus child allowances if applicable. An early retirement pension may be paid on leaving but the pension is reduced by 1/3% for each month that pension starts earlier than age 60. Subject to the Company's (or, in the case of Executive Directors, the Committee's) consent, the reduction applied may be less.

ansfer values are calculated on a basis that assumes the pension would e drawn at the earliest date where no reduction would apply and with lowance for future pension increases (both before and after pension ommences) to reflect the past practice of granting increases greater an those guaranteed.

ensions in payment are subject to annual increases at the lower of the crease in the RPI in the previous year and 5%. As all of the UK-based ecutive Directors joined the Company after 5 April 1997, there is no uaranteed Minimum Pension ('GMP') element included in their ensions. (The GMP is that part of the pension which replaces State arnings-Related Pension.)

ne table below sets out the transfer value at 31 March 2005 of each ecutive Director's accrued deferred pension at that date as well as the ovement in that transfer value over the period. The transfer values are abilities of the EMI Group Pension Fund and reflect both the age of the ecutive Director and his length of service and membership of the Fund.

	Age at 31.3.05 Years	Accrued pension[a] at 31.3.05 £pa	Accrued pension[a] at 1.4.04 £pa	Increase in accrued pension during the year net of inflation[a] £pa	Transfer value of accrued pension[b] at 31.3.05 £	Transfer value of accrued pension[b] at 1.4.04 £	Directors' contributions during the year £	Increase in transfer value over the year net of Directors' contributions £pa
Executive Directors:								
E L Nicoli	54	10,058	8,112	1,695	160,783	122,117	4,080	34,586
A M J I Levy	58	5,808	3,987	1,697	115,851	74,275	4,080	37,496
M D Stewart[c]	41	567	–	–	4,059	–	680	3,379

[a] The accrued pensions are the amounts which would be paid if the Director left service at the relevant date.
[b] The transfer values have been calculated in accordance with guidance note GN11 published by the Institute of Actuaries and Faculty of Actuaries.
[c] Appointed as a Director on 1 February 2005.

The earnings cap (as defined in the Finance Act 1989) limits salary for pension purposes to £105,600 from 6 April 2005 (2004: £102,000). Therefore, as described above and except in the case of the CFO, the Company makes contributions to a separate defined contribution plan that provides additional benefits to those affected by the cap. The after-tax value of contributions, expressed as a percentage of base salary in excess of the cap, which the Company paid to the defined contribution plan in respect of Executive Directors, was:

E L Nicoli	33.42%
A M J I Levy	30.00%

The CFO receives a pension allowance, as described on page 55 and, therefore, does not participate in the defined contribution plan. This allowance amounted to £28,200 for the period from 1 February 2005 (the date he joined the Board) to 31 March 2005 and is included in 'Benefits' in the table on page 60.

Money purchase contributions in the year to 31 March 2005

	FURBS[a] £	Tax compensation £	Total £
Executive Directors:			
E L Nicoli	205,533	142,828	**348,361**
A M J I Levy	269,400	187,210	**456,610**
M D Stewart[b]	–	–	–

[a] Funded unapproved retirement benefits scheme.
[b] Appointed as a Director on 1 February 2005.

These contributions are set at levels which, based on actuarial advice, are likely to deliver comparable benefits to the capped final salary element.

The table below sets out the contributions made to US money purchase pension arrangements in respect of the two US-based Executive Directors who served during the year.

	Contributions by Group %	Contributions by Group US$	Contributions by Director %	Contributions by Director US$	Total US$
Executive Director:					
M N Bandier	33.4% of pay[a]	1,905,271	13% of pay[a]	741,572	2,646,843
Former Executive Director:					
R C Faxon[b]	50% of base salary	347,634	13.8% of base salary	95,947	443,581

[a] Consistent with US practice, pay for this purpose includes the value of annual cash bonuses.
[b] Resigned as a Director on 31 January 2005.

There were no retirement benefits paid to former Directors in excess of those to which they became entitled when such benefits first became payable to such former Directors.

Compensation to former Directors not previously reported
There were no compensation payments or other awards made to former Directors. As referred to above, Roger Faxon continues as an employee of EMI Music Publishing following his resignation as a Director and has received no compensation for loss of office.

Payments to third parties for making the Directors' services available
No payments have been made to third parties for making any Director's services available to the Company.

As required by the Directors' Remuneration Report Regulations, those items from the "Pensions" heading on page 58 to page 64 inclusive have been subject to audit.

By Order of the Board
John Gildersleeve
Deputy Chairman
20 May 2005

Remuneration report
continued

Remuneration details

Annual remuneration[a]

	Base salary or fees £'000	Compensation for loss of employment £'000	Expenses £'000	Benefits[b] £'000	Incentive[c] remuneration £'000	2005 Total in year £'000	2004 Total in year £'000
Executive Directors:							
E L Nicoli	716.2	–	–	46.6[d]	372.8	1,135.6	1,378.5
M N Bandier	1,725.0	–	–	41.8	1,379.9	3,146.7	3,318.4
A M J I Levy	1,000.0	–	–	53.7	997.0	2,050.7	1,595.8
M D Stewart (appointed 1.2.05)	87.5	–	–	32.6[e]	51.0	171.1	–
Non-executive Directors:							
J Gildersleeve	90.0	–	–	–	–	90.0	7.5
S Bailey (appointed 2.4.04)	49.9	–	–	–	–	49.9	–
P A Georgescu	50.0	–	–	–	–	50.0	35.3
D J Londoner	50.0	–	–	–	–	50.0	35.4
K A O'Donovan	60.0	–	–	–	–	60.0	46.5
Former Executive Director:							
R C Faxon (resigned 31.1.05)	375.8	–	–	286.3[f]	170.2	832.3	885.7
Former Non-executive Director:							
H Einsmann (retired 13.7.04)	14.2	–	–	–	–	14.2	39.5
Total 2005	4,218.6	–	–	461.0	2,970.9	7,650.5	–
Total 2004	3,899.6	–	–	222.9	3,280.1	–	7,402.6

[a] Excludes retirement contributions (see table on page 59) and the value of share awards ceasing to be contingent, as reported in the table shown below.

[b] The nature of the non-cash benefits provided to Executive Directors who held office during the year is as follows:

E L Nicoli:
- provision of a Company car plus use of a Company pool car and driver until 28 February 2005 and, since 1 March 2005, a car allowance plus use of a Company pool car and driver;
- private healthcare; and,
- personal accident insurance.

M N Bandier:
- a car allowance of US$36,000 pa; and,
- participation in the Group's US executive medical plan, life, health (hospital, major medical and dental) and accident insurance.

A M J I Levy:
- use of a Company pool car and driver;
- private healthcare; and,
- personal accident insurance.

M D Stewart:
- a car allowance plus use of a Company pool car and driver;
- private healthcare; and,
- personal accident insurance.

R C Faxon:
- a car allowance of US$25,000 pa;
- participation in the Group's US executive medical plan, life, health (hospital, major medical and dental) and accident insurance; and,
- health club memberships in both New York and London.

[c] Bonuses paid to the Executive Directors reflect the factors referred to on page 54. Bonuses for Mr Nicoli and Mr Faxon reflect full achievement of the cashflow target and the Committee's assessment of their performance against strategic objectives. In Mr Stewart's case, the bonus is pro-rated for the part of the year during which he was a Director. In Mr Levy's case, EMI Music's operating profit margin was at approximately the mid-point of the scale set in his employment contract but the bonus element in respect of relative sales growth/decline did not result in a payment. The economic profit achieved by EMI Music Publishing resulted in Mr Bandier achieving his maximum bonus opportunity of 80% of base salary.

[d] The 2005 benefits figure for Mr Nicoli is significantly lower than that for the equivalent period in 2004 as the payment in respect of Mr Nicoli's private healthcare and personal accident insurance for 2005 was accounted for in the period ended 31 March 2004.

[e] For Martin Stewart, this includes the pension allowance which is more fully described on page 55 in the Remuneration Report.

[f] Includes tax equalisation payments totalling £253,775 paid in the year ended 31 March 2005 relating to service in the UK for the US tax periods from 1 January 2002 through to 31 January 2005 (when Mr Faxon ceased to be a Director). Of this amount, £146,663 is in respect of the 2002 and 2003 US tax years which coincide with the calendar years.

Remuneration from prior-year share awards ceasing to be contingent

	Awards No. of shares	2005 Total value[a] £'000	Awards No. of shares	2004 Total value[a] £'000
Executive Directors:				
E L Nicoli	–	–	–	–
M N Bandier	165,625[b]	391.3	165,625[b]	459.6
A M J I Levy	–	–	–	–
M D Stewart (appointed 1.2.05)	–	–	–	–
Former Executive Director:				
R C Faxon (resigned 31.1.05)	298,250	704.6	–	–[c]
Total	463,875	1,095.9	165,625	459.6

[a] The value is based on the share price on the date awards ceased to be contingent.

[b] Whilst in certain circumstances these restricted share awards may lapse or be released before the vesting date, a proportion of their value is included in reported remuneration each year to match remuneration costs more accurately to the time period in which these shares are earned.

[c] In the report for the period to 31 March 2004, an award over 103,803 shares with a value of £288,100 was shown as ceasing to be contingent. Following the publication of the Company's preliminary results to 31 March 2004, Mr Faxon deferred the vesting of this award for a period of three years. Accordingly, the figures for the period to 31 March 2004 have been restated.

Directors' interests

Directors' interests (all beneficial) in the Company's Ordinary Shares of 14p each[abc]

	Non-contingent share awards[d]	Directly held shares	As at 31.3.05 total shares held[e]	As at 1.4.04 or date of appointment if later Total shares held
Executive Directors:				
E L Nicoli	133,982	69,426	203,408[e]	203,392
M N Bandier	–	379,760	379,760	379,760
A M J I Levy	–	775,000	775,000	775,000
M D Stewart (appointed 1.2.05)	–	–	–	–
Non-executive Directors:				
J Gildersleeve	–	1,377	1,377	1,254
S Bailey (appointed 2.4.04)	–	1,250	1,250	–
P A Georgescu	–	100,000	100,000	100,000
D J Londoner	–	10,000	10,000	10,000
K A O'Donovan	–	2,000	2,000	2,000

[a] The Company's Register of Directors' Interests is available for inspection in accordance with the provisions of the Companies Act 1985.

[b] No Director had any interest in either shares or debentures of any subsidiary of the Company.

[c] As potential beneficiaries under the EMI Group General Employee Benefit Trust ('EBT'), the Executive Directors are deemed to be interested in the entire shareholding of the EBT which at 31 March 2005 amounted to 3,840,515 shares.

[d] Non-contingent share awards shown in this column are also included as incentive awards in the table on page 63. Such awards, made under the now-closed Senior Executive Incentive Plan, arise from the deferral of annual cash bonuses into shares. The awards are subject to an additional 1:3 matching award if deferred for three years from the date of the award, or an additional 2:3 award if deferred for six years from the date of the award.

[e] Mr Nicoli's interest in shares declined by 2,205 shares on 9 May 2005 when the connected person beneficially owning such shares ceased to be a person connected to him. There has been no other change in these interests between 31 March 2005 and the date of this report.

Remuneration report

continued

Current long-term incentive schemes

Directors' outstanding performance share awards under the Executive Share Incentive Plan[a b]

	Date of award	Earliest normal vesting date	Lapse date	As at 1.4.04 or date of appointment if later	Vested in year	Awarded in year	Lapsed in year	As at 31.3.05 or date of resignation if earlier
Executive Directors:								
E L Nicoli	14.7.03	14.7.06	13.1.07	515,294	–	–	–	515,294
	18.6.04	18.6.07	17.12.07	–	–	313,153[c]	–	313,153
Total				**515,294**	**–**	**313,153**	**–**	**828,447**
M D Stewart[d]	7.1.05	7.1.08	6.7.08	259,558	–	–	–	259,558
Total				**259,558**	**–**	**–**	**–**	**259,558**
Former Executive Director:								
R C Faxon[e]	14.7.03	14.7.06	13.1.07	375,255	–	–	–	375,255
	18.6.04	18.6.07	17.12.07	–	–	207,510[c]	–	207,510
Total				**375,255**	**–**	**207,510**	**–**	**582,765**

[a] Exercise is subject to the performance target set out in the policy section of this report in respect of performance share awards, namely based on the Company's Total Shareholder Return ('TSR'), compared to FTSE Mid-250 companies excluding investment trusts, over a fixed three-year period.

[b] The rules of the ESIP currently provide that a participant is required to make payment of a nominal sum of £1 in aggregate on the exercise of a share award, unless such sum is waived by the Remuneration Committee. Since 31 March 2005, the Remuneration Committee has concluded that, so as to ease the administration of such awards if and when they vest, the payment of this nominal amount should be waived or removed.

[c] The closing mid-market share price on the date of the award was 234p.

[d] Appointed 1 February 2005.

[e] Resigned 31 January 2005.

Directors' outstanding share options over Ordinary Shares of 14p each under the Executive Share Incentive Plan[a]

	Date granted	Earliest normal exercise date	Lapse date	Exercise price	As at 1.4.04 or date of appointment if later	Exercised in year	Granted in year	Lapsed in year	As at 31.3.05 or date of resignation if earlier
Executive Directors:									
E L Nicoli	14.7.03	14.7.06	13.7.13	119.25p	1,030,589	–	–	–	1,030,589
	18.6.04	18.6.07	17.6.14	223.66p	–	–	626,307	–	626,307
Total					**1,030,589**	**–**	**626,307**	**–**	**1,656,896**
M D Stewart[b]	7.1.05	7.1.08	6.1.15	252.833p	519,116	–	–	–	519,116
Total					**519,116**	**–**	**–**	**–**	**519,116**
Former Executive Director:									
R C Faxon[c]	14.7.03	14.7.06	13.7.13	119.25p	750,511	–	–	–	750,511
	18.6.04	18.6.07	17.6.14	223.66p	–	–	415,020	–	415,020
Total					**750,511**	**–**	**415,020**	**–**	**1,165,531**

[a] Exercise is subject to the performance target set out in the policy section of this report in respect of grants of share options, namely the Company's Earnings Per Share ('EPS') growth over a fixed three-year period.

[b] Appointed 1 February 2005.

[c] Resigned 31 January 2005.

Directors' outstanding share options over Ordinary Shares of 14p each under the ShareSave scheme

	Date granted	Earliest normal exercise date	Lapse date	Exercise price	As at 1.4.04	Exercised in year	Granted in year	Lapsed in year	As at 31.3.05
Executive Directors:									
E L Nicoli	19.6.03	1.9.08	28.2.09	96p	16,588	–	–	–	16,588
Total					**16,588**	**–**	**–**	**–**	**16,588**
A M J I Levy	19.6.03	1.9.08	28.2.09	96p	16,588	–	–	–	16,588
Total					**16,588**	**–**	**–**	**–**	**16,588**

ShareSave options are normally exercisable for a six-month period following completion of savings to either a three-year or a five-year ShareSave contract and are not subject to additional performance conditions.

Closed long-term incentive schemes

Directors' outstanding share awards under long-term incentive plans

	Date of award	As at 1.4.04 Incentive[a]	Performance[b]	Restricted[c]	During year Matching awards	Vested	Lapsed	As at 31.3.05 or date of resignation if earlier
Executive Directors:								
E L Nicoli	31.5.00	67,722	–	–	–	–	–	67,722
	31.5.01	66,260	–	–	–	–	–	66,260
Total		**133,982**	–	–	–	–	–	**133,982**
M N Bandier	28.9.01	–	1,250,000[d]	–	–	–	–	1,250,000
	28.9.01	–	–	662,500[d]	–	–	–	662,500
Total		–	**1,250,000**	**662,500**	–	–	–	**1,912,500**
Former Executive Director:								
R C Faxon[e]	18.6.99	88,848	–	–	59,232	(148,080)[f]	–	–
	31.5.00	18,888	–	–	–	–	–	18,888
	31.5.01	56,300	–	–	–	–	–	56,300
	15.6.01	–	103,803	–	–	–	–	103,803
	28.5.02	112,628	–	–	37,542	(150,170)[g]	–	–
Total		**276,664**	**103,803**	–	**96,774**	**(298,250)**	–	**178,991**

[a] Incentive share awards are not contingent on future performance and/or are no longer subject to forfeiture. Such awards, made under the now-closed Senior Executive Incentive Plan, arise from the deferral of annual cash bonuses into shares. The awards are subject to an additional 1:3 matching award if deferred for three years from the date of the award, or an additional 2:3 award if deferred for six years from the date of the award.

[b] Shows total potential award.

- The total of the eventual award depends on the achievement of Group or business unit performance against profit targets set by the Remuneration Committee in respect of a performance period that terminates on 31 March in the third year after the date of the award. The eventual award is subject to an additional 1:3 matching award if vesting is deferred for a further three years from the vesting date. In certain circumstances, for example upon a change of control of EMI, awards could be released before the normal vesting date.
- Mr Faxon participated in a performance share award granted on 15 June 2001 based on EMI Music Publishing's performance, which required growth of between 6.1% and 22.5% in EMI Music Publishing's economic profit over three years. In the report for the period to 31 March 2004, this award over 103,803 shares was shown as ceasing to be contingent and was valued at £288,100. Following the publication of the Company's preliminary results to 31 March 2004, Mr Faxon deferred the vesting of this award for a period of three years. Accordingly, the figures in respect of this award have been restated.
- In 2001, in place of overlapping annual share awards based on three-year performance cycles, Mr Bandier was granted a one-time performance share award which requires 2% pa growth in the Music Publishing division's economic profit for the entire performance period to 31 March 2006, at which level one sixth of the shares accrue, with maximum payout at 7% pa growth (with straight-line vesting between these two points).

[c] Mr Bandier's restricted share award will vest no earlier than 31 March 2006. The award was in lieu of additional base salary and is not, therefore, subject to performance requirements. The aim of the award was to bring Mr Bandier's basic annual remuneration into line with competitive practice in the US, where he is based, whilst aligning his interests more closely with those of the shareholders and providing him with a strong incentive to remain with the Group. No further awards of this nature are envisaged. A proportion of this award is included in remuneration each year so as to match remuneration costs more accurately to the time period in which the shares are earned.

[d] With the exception of Mr Bandier's awards, on termination of employment in certain circumstances, for example, as a result of death, disability, sale of the relevant business unit, normal retirement, or termination without cause, and if the performance criteria are on target for achievement, a proportion of the awards may become exercisable prior to normal vesting. If the performance criteria are not on target for achievement, the whole award lapses if it has not reached its normal vesting date. Upon a change of control, all awards vest, or can be exchanged for an equivalent value of awards in the acquiring entity, with identical terms to the original awards.

Mr Bandier's outstanding share awards would vest, in whole or in part, if he was dismissed (other than for cause) or following a change of control of EMI. Both his performance share and restricted share awards will lapse if, prior to the vesting date of 31 March 2006, Mr Bandier resigns voluntarily or his employment agreement is terminated by EMI for cause. However, if Mr Bandier's employment is terminated without cause by EMI, he will receive the proportion of his restricted share award which he would have earned had he remained in employment for a further two years. Under these same circumstances, he would also receive a proportion of his performance share award pro-rated to the date of termination, subject to the achievement of the relevant performance criteria. In the event of a change of control of EMI, all the restricted share award would vest together with a proportion of the performance share award pro-rated to the date of the change of control together with an additional 625,000 shares up to the maximum award of 1.25m shares. Vesting would take place on the earlier of one year after the date of the change of control or the termination of his employment without cause.

[e] Resigned 31 January 2005.

[f] The closing mid-market share prices on the dates of the award (18 June 1999) and vesting (31 March 2005) were 528.75p and 236.25p, respectively.

[g] The closing mid-market share prices on the dates of the award (28 May 2002) and vesting (31 March 2005) were 267.25p and 236.25p, respectively.

Directors' outstanding share options over Ordinary Shares of 14p each[a b]

	Date granted	Earliest normal exercise date[cd]	Lapse date	Exercise price	As at 1.4.04	Exercised in year	Granted in year	Lapsed in year	As at 31.3.05 or date of resignation if earlier
Executive Directors:									
E L Nicoli	3.6.99	3.6.02	2.6.09	440.000p	60,000	–	–	–	60,000
	21.6.02	21.6.05	20.6.12	243.300p	838,471	–	–	–	838,471
Total					**898,471**	–	–	–	**898,471**
M N Bandier	25.8.95	25.8.98	24.8.05	590.315p	253,084	–	–	–	253,084
	23.8.96	23.8.99	22.8.06	734.500p	60,000	–	–	–	60,000
	6.6.97	6.6.00	5.6.07	575.000p	52,144	–	–	–	52,144
Total					**365,228**	–	–	–	**365,228**
A M J I Levy[e]	15.10.01	15.10.04	14.10.11	300.000p	3,000,000	–	–	–	3,000,000
	15.10.01	15.10.04	14.10.11	400.000p	3,000,000	–	–	–	3,000,000
	15.10.01	15.10.04	14.10.11	500.000p	2,000,000	–	–	–	2,000,000
	15.10.01	15.10.04	14.10.11	700.000p	2,000,000	–	–	–	2,000,000
	2.1.02	2.1.05	1.1.12	357.300p	2,000,000	–	–	–	2,000,000
	19.12.02	19.12.05	18.12.12	146.050p	2,000,000	–	–	–	2,000,000
	19.12.02	19.12.06	18.12.12	153.750p	2,000,000	–	–	–	2,000,000
	19.12.02	19.12.07	18.12.12	269.050p	2,000,000	–	–	–	2,000,000
	19.12.02[e]	19.12.08	18.12.12[e]	–	2,000,000	–	–	–	2,000,000
Total					**20,000,000**	–	–	–	**20,000,000**
Former Executive Director:									
R C Faxon[f]	23.8.96	23.8.99	22.8.06	734.500p	67,500	–	–	–	67,500
	6.6.97	6.6.00	5.6.07	575.000p	50,326	–	–	–	50,326
	5.2.02	5.2.05	4.2.12	305.000p	500,000	–	–	–	500,000
	28.5.02	28.5.05	27.5.12	267.250p	250,000	–	–	–	250,000
	21.6.02	21.6.05	20.6.12	244.000p	283,000	–	–	–	283,000
Total					**1,150,826**	–	–	–	**1,150,826**

[a] No Directors' share options were exercised in the year. Therefore, the total gain made on the exercise of share options was £nil (2004: £nil). The closing mid-market share price on 31 March 2005 was 236.25p. The range of closing mid-market share prices during the year was 191p and 281.25p.

[b] All of the options were granted for nil consideration.

[c] Executive Directors' share options are normally exercisable during the period commencing no earlier than three years and ending no later than 10 years from the date granted.

[d] Share options were granted to Executive Directors in previous years in accordance with the relevant Executive Share Option Scheme rules and market practice at the time. The table above sets out information on the current Executive Directors' grants of such share options. The performance criteria relating to these grants are as follows:

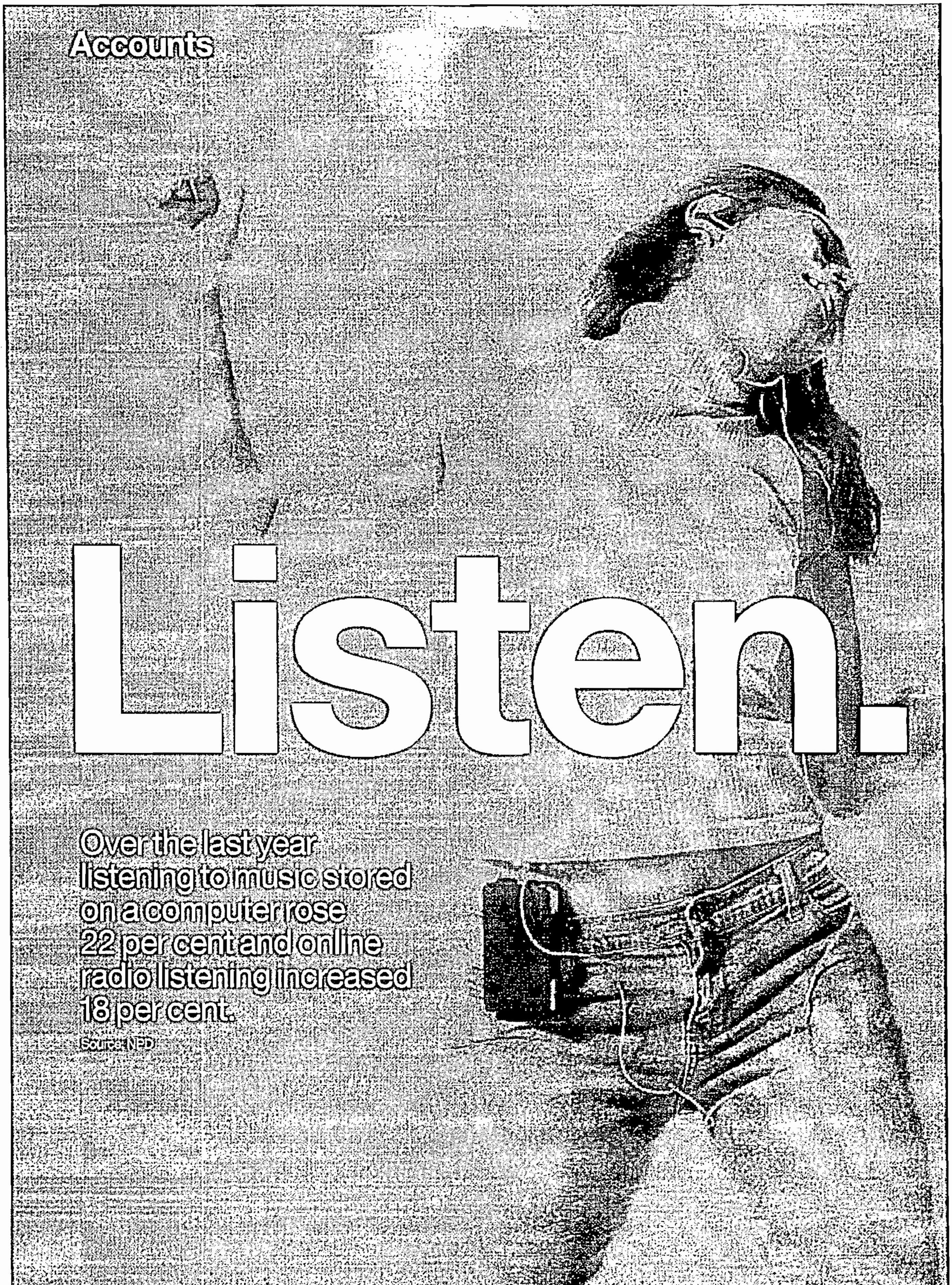
- For the period from 25 August 1995 to 9 December 1999, the criterion was that the Company's TSR over the relevant calculation period compared to the TSR of the companies in the FTSE 100 at 1 April prior to the date of grant is at least equal to the median of that group. TSR is the percentage growth of the share price, assuming reinvestment of any dividends paid, over the calculation period. The initial calculation period commences on 1 April immediately preceding the date of grant and ends on 31 March three years later and, thereafter, calculations are made at each quarter end for the preceding three-year period until the performance criterion is met or the option lapses.
- For the period from 10 December 1999 to 8 July 2003 (excluding Mr Levy's grants – see footnote (e) below), the criterion was that the increase in the Group's adjusted, fully diluted EPS over a three-year period following the date of grant should exceed an average of the UK retail prices index ('RPI') plus a rate ranging between 2% and 3% pa.

The Committee chose the relevant performance criteria as they were considered to be challenging and in accordance with the then existing market practice, while aligning Executive Directors' interests with those of shareholders.

[e] On appointment, Mr Levy was granted options over 10m shares at prices between 300p and 700p. Since appointment, Mr Levy has been granted additional options over a further 10m shares which represent his entitlement to options in respect of the five financial years up to and including, but ending on, 31 March 2006. The exercise prices for these options are determined after the announcement of the interim results for the respective financial years, using a five-day average share price. Exercise of all the options is generally conditional on the Company's adjusted diluted EPS growing by at least an average of RPI plus 2.5% pa over the period from 31 March 2002 to the 31 March following the relevant vesting date with retesting throughout the option's life. The terms of Mr Levy's contract prescribe the impact of a cessation of employment or a change of control of EMI on the share options granted under his contract. If Mr Levy's appointment were terminated by EMI without cause or by Mr Levy with good reason (as defined in the contract), the options over 10m shares granted on 15 October 2001 would vest and could be exercised without regard to the performance conditions.

If Mr Levy's appointment is terminated in the circumstances described in the preceding paragraph, the options granted on 2 January and 19 December 2002 for which the prices have been determined by the date of termination, as set out in the table above, will vest and may be exercised without regard to the performance conditions; all other options would lapse. The exercise of options vested under the preceding paragraph must be undertaken within 12 months of the date of termination. On a change of control of EMI, Mr Levy's options will be treated as if his employment had been terminated by EMI without cause with the result that they may be exercised without regard to performance conditions, but the exercise period will be limited to six months. A termination resulting from Mr Levy's death or disability will be treated in the same manner as a termination by the Company without cause.

[f] Resigned 31 January 2005.


Listen.
Over the last year listening to music stored on a computer rose 22 per cent and online radio listening increased 18 per cent.
Source: NPD

Financial contents

Auditor's report

Independent Auditor's report to the members of EMI Group plc
We have audited the Group's financial statements for the year ended 31 March 2005 which comprise the Consolidated profit and loss account, Consolidated balance sheet, Company balance sheet, Consolidated cash flow statement, Statement of total recognised gains and losses, Reconciliation of movements in shareholders' funds and the related notes 1 to 28. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor
The Directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' report, unaudited part of the Directors' Remuneration report, Chairman's statement, Operating reviews, Financial review and Corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration report to be audited.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2005 and of the profit of the Group for the year then ended; and the financial statements and the part of the Director's Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
23 May 2005

Consolidated profit and loss account

for the year ended 31 March 2005

	Notes	Total £m
Group turnover	1	1,942.8
Group operating profit before exceptional items and amortisation	1	232.9
Operating exceptional items	8	–
Group operating profit before amortisation		232.9
Amortisation		(50.7)
Group operating profit*	1&2	182.2
Share of operating profits (losses) in associated undertakings	1	0.9
Total operating profit		183.1
Non-operating exceptional items	1&8	0.8
Profit before finance charges		183.9
Finance charges	1&5	(92.1)
Profit (loss) on ordinary activities before taxation	1	91.8
Taxation on profit (loss) on ordinary activities (including associated undertakings)	6	(31.2)
Profit (loss) on ordinary activities after taxation		60.6
Minority interests (equity)		(4.3)
Profit (loss) attributable to members of the Holding Company		56.3
Dividends (equity)	7	(63.2)
Transfer (from) to profit and loss reserve		(6.9)

* The following items are included within Group operating profit		
Cost of sales	2	(1,225.3)
Gross profit		717.5
Distribution costs	2	(69.6)
Administration expenses	2	(504.0)
Other operating income, net	2	38.3

Earnings Per Ordinary Share (EPS)

		Year ended 31 March 2005
Basic earnings per Ordinary Share	9	7.2p
Diluted earnings per Ordinary Share	9	7.2p
Adjusted basic earnings per Ordinary Share	9	13.5p
Adjusted diluted earnings per Ordinary Share	9	13.0p

Adjusted earnings are included as they provide a better understanding of the underlying trading performance of the Group on a normalised basis.

Average exchange rates for the year

	Year ended 31 March 2005
US Dollar to £1	1.85
Euro to £1	1.46
Yen to £1	198.32

The results for the year have been translated into Sterling at the appropriate average exchange rates.

	Year ended 31 March 2005				Year ended 31 March 2004
		EMI Group	EMI Group		Total
	Exceptional items (Note 8) and amortisation £m	Before exceptional items and amortisation £m	Before exceptional items and amortisation £m	Exceptional items (Note 8) and amortisation £m	£m
	–	1,942.8	2,120.7	–	2,120.7
	–	232.9	249.3	–	249.3
	–	–	–	(138.3)	(138.3)
	–	232.9	249.3	(138.3)	111.0
	(50.7)	–	–	(50.9)	(50.9)
	(50.7)	232.9	249.3	(189.2)	60.1
	(0.2)	1.1	(0.1)	(0.2)	(0.3)
	(50.9)	234.0	249.2	(189.4)	59.8
	0.8	–	–	(16.5)	(16.5)
	(50.1)	234.0	249.2	(205.9)	43.3
	–	(92.1)	(85.9)	(10.2)	(96.1)
	(50.1)	141.9	163.3	(216.1)	(52.8)
	–	(31.2)	(32.5)	12.8	(19.7)
	(50.1)	110.7	130.8	(203.3)	(72.5)
	–	(4.3)	(6.5)	7.4	0.9
	(50.1)	106.4	124.3	(195.9)	(71.6)
					(62.5)
					(134.1)

	(45.8)	(1,179.5)	(1,286.0)	(118.7)	(1,404.7)
	(45.8)	763.3	834.7	(118.7)	716.0
	–	(69.6)	(85.1)	(6.9)	(92.0)
	(4.9)	(499.1)	(530.7)	(52.8)	(583.5)
	–	38.3	30.4	(10.8)	19.6

	Year ended 31 March 2004
	(9.1)p
	(9.1)p
	15.8p
	15.5p

	Year ended 31 March 2004
	1.70
	1.45
	191.67

Balance sheets

at 31 March 2005

	Notes	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Fixed assets					
Music copyrights	10	402.8	448.7	–	–
Goodwill	11	33.2	31.8	–	–
Tangible fixed assets	12	183.1	202.7	23.3	31.7
Investments	13	22.9	19.3	2,225.9	2,211.7
		642.0	702.5	2,249.2	2,243.4
Current assets					
Stocks	14	28.2	28.1	–	–
Debtors: amounts falling due within one year	15	720.8	722.6	2,465.8	2,432.8
Debtors: amounts falling due after more than one year	15	79.5	88.3	–	0.4
Investments: liquid funds	16	1.6	1.8	–	–
Cash at bank and in hand and cash deposits	16	240.9	343.4	1.3	5.0
		1,071.0	1,184.2	2,467.1	2,438.2
Creditors: amounts falling due within one year					
Borrowings	16	(30.0)	(35.8)	–	–
Other creditors	18	(1,292.7)	(1,353.5)	(148.0)	(146.5)
		(1,322.7)	(1,389.3)	(148.0)	(146.5)
Net current (liabilities) assets		(251.7)	(205.1)	2,319.1	2,291.7
Total assets less current liabilities		390.3	497.4	4,568.3	4,535.1
Creditors: amounts falling due after more than one year					
Borrowings (including convertible debt)	16	(1,042.0)	(1,058.1)	(602.8)	(593.2)
Other creditors	19	(10.2)	(12.9)	(792.6)	(777.5)
		(1,052.2)	(1,071.0)	(1,395.4)	(1,370.7)
Provisions for liabilities and charges	20&21	(85.2)	(142.8)	(2.3)	(3.5)
		(747.1)	(716.4)	3,170.6	3,160.9
Capital and reserves					
Called-up share capital	22	110.6	110.4	110.6	110.4
Share premium account	22	447.3	445.8	447.3	445.8
Capital redemption reserve	23	495.8	495.8	495.8	495.8
Other reserves	23	252.2	255.7	400.8	402.1
Profit and loss reserve (including goodwill previously written off)	23	(2,101.3)	(2,091.7)	1,716.1	1,706.8
Equity shareholders' funds		(795.4)	(784.0)	3,170.6	3,160.9
Minority interests (equity)	24	48.3	67.6	–	–
		(747.1)	(716.4)	3,170.6	3,160.9

Year-end exchange rates

	2005	2004
US Dollar to £1	1.89	1.84
Euro to £1	1.45	1.50
Yen to £1	202.11	191.20

The balance sheet has been translated into Sterling at the appropriate year-end exchange rates.

Eric Nicoli
Martin Stewart
Directors
23 May 2005

Statement of total recognised gains and losses

for the year ended 31 March 2005

		2005		2004
	£m	£m	£m	£m
Profit (loss) for the financial year				
Group		55.4		(71.3)
Associated undertakings		0.9		(0.3)
Profit (loss) for the financial year		56.3		(71.6)
Currency translation – Group*	(7.2)		28.0	
Impairment of revalued property and revaluation of music copyright	(0.7)		20.7	
Other recognised (losses) gains		(7.9)		48.7
Total recognised gains and losses relating to the year		48.4		(22.9)

* Net currency losses of £4.7m (2004: gains £4.5m), which relate to foreign currency borrowings to finance investment overseas, and the related tax charge of £nil (2004: £nil), have been included within the Group currency translation movement on reserves.

Reconciliation of movements in shareholders' funds

for the year ended 31 March 2005

	Note	£m	2005 £m	£m	2004 £m
Opening shareholders' funds			(784.0)		(700.4)
Profit (loss) for the financial year		56.3		(71.6)	
Shares issued		1.7		–	
Dividends (equity)	7	(63.2)		(62.5)	
Other recognised (losses) gains		(7.9)		48.7	
Goodwill adjustments		(0.3)		–	
Employee Benefit Trust transactions		2.0		1.8	
Net (decrease) increase in shareholders' funds for the year			(11.4)		(83.6)
Closing shareholders' funds			(795.4)		(784.0)

Consolidated cash flow statement and notes

for the year ended 31 March 2005

	Notes	2005 £m	2004 £m
Net cash inflow from operating activities	a	221.4	309.4
Returns on investments and servicing of finance			
Interest received		5.2	7.4
Interest paid		(105.5)	(102.7)
Interest element of finance lease payments		–	(0.1)
Dividends paid to minorities		(1.3)	(3.5)
Net cash outflow from returns on investments and servicing of finance		(101.6)	(98.9)
Tax paid		(32.7)	(30.6)
Capital expenditure and financial investment			
Purchase of music copyrights	10	(6.0)	(5.1)
Sale of music copyrights		0.2	0.4
Purchase of tangible fixed assets	12	(29.9)	(51.3)
Sale of tangible fixed assets		3.3	78.0
Purchase of investments: own shares	23	(0.3)	(0.3)
Purchase of fixed asset investments		(2.9)	–
Sale of fixed asset investments		–	1.0
Net cash (outflow) inflow from capital expenditure and financial investment		(35.6)	22.7
Acquisitions and disposals			
Purchase of businesses net of cash acquired	13	(6.8)	(73.3)
Deferred consideration paid		(64.1)	(16.1)
Purchase of associated undertakings	13	(2.1)	–
Disposal of associated undertakings		0.1	0.4
Net cash (outflow) inflow from acquisitions and disposals		(72.9)	(89.0)
Equity dividends paid		(62.9)	(62.7)
Net cash (outflow) inflow before management of liquid resources and financing		(84.3)	50.9
Issue of ordinary share capital		1.7	–
Management of liquid resources	b)	(0.8)	(1.7)
Financing:			
New loans	b)	128.9	398.5
Loans repaid	b)	(127.1)	(209.4)
Capital element of finance leases repaid	b)	(0.1)	(2.1)
Net cash inflow (outflow) from management of liquid resources and financing		2.6	185.3
(Decrease) increase in cash	b)	(81.7)	236.2

Reconciliation of net cash flow to movement in net debt

	2005 £m	2004 £m
(Decrease) increase in cash	(81.7)	236.2
Cash outflow from increase in liquid resources	0.8	1.7
Cash (inflow) from increase in loans	(128.9)	(398.5)
Cash (inflow) outflow from repayment of loans and finance leases	127.2	211.5
Change in net debt resulting from cash flows	(82.6)	50.9
Loans acquired	–	(0.4)
Exchange differences	1.8	60.6
Movement in net debt	(80.8)	111.1
Net debt at beginning of year	(748.7)	(859.8)
Net debt at end of year	(829.5)	(748.7)

a) Reconciliation of Group operating profit to net cash inflow from operating activities

	Notes	2005 £m	2004 £m
Group operating profit	1	182.2	60.1
Depreciation charge	12	23.9	35.0
Amortisation charge:			
Music copyrights	10	45.8	46.9
Goodwill	11	4.9	4.0
Exceptional non-cash write-down		–	43.1
Goodwill write-down – subsidiaries		–	18.1
Music copyrights write-down		–	4.5
ESOP transactions		2.3	2.1
Amounts provided	21	7.8	73.4
Provisions utilised:			
Disposals and fundamental reorganisations		(11.3)	–
Other		(59.4)	(36.1)
(Increase) decrease in working capital:			
Stock		(0.1)	(8.0)
Debtors		10.9	59.8
Creditors		14.4	6.5
Net cash inflow from operating activities		221.4	309.4

b) Analysis of movement in the Group's net borrowings

	At 1 April 2004 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange movement £m	At 31 March 2005 £m
Cash at bank and in hand	342.7	(101.7)	–	(1.9)	239.1
Overdrafts	(32.5)	20.0	–	0.7	(11.8)
Cash	310.2	(81.7)	–	(1.2)	227.3
Debt due after more than one year	(1,058.0)	13.2	–	2.8	(1,042.0)
Debt due within one year	(3.3)	(15.0)	–	0.1	(18.2)
Finance leases	(0.1)	0.1	–	–	–
Financing*	(1,061.4)	(1.7)	–	2.9	(1,060.2)
Investments: liquid funds	1.8	(0.3)	–	0.1	1.6
Cash deposits	0.7	1.1	–	–	1.8
Liquid resources	2.5	0.8	–	0.1	3.4
Total	(748.7)	(82.6)	–	1.8	(829.5)

* Cash flow on financing of £(1.7)m is split between new loans of £(128.9)m, loans repaid of £127.1m and the capital element of finance leases repaid of £0.1m.

	At 1 April 2003 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange movement £m	At 31 March 2004 £m
Cash at bank and in hand	99.9	245.4	0.4	(3.0)	342.7
Overdrafts	(25.0)	(9.6)	–	2.1	(32.5)
Cash	74.9	235.8	0.4	(0.9)	310.2
Debt due after more than one year	(920.5)	(198.9)	–	61.4	(1,058.0)
Debt due within one year	(12.8)	9.8	(0.4)	0.1	(3.3)
Finance leases	(2.2)	2.1	–	–	(0.1)
Financing*	(935.5)	(187.0)	(0.4)	61.5	(1,061.4)
Investments: liquid funds	0.5	1.3	–	–	1.8
Cash deposits	0.3	0.4	–	–	0.7
Liquid resources	0.8	1.7	–	–	2.5
Total	(859.8)	50.5	–	60.6	(748.7)

* Cash flow on financing of £(187.0)m is split between new loans of £(398.5)m, loans repaid of £209.4m and the capital element of finance leases repaid of £2.1m.

Cash: Cash in hand and deposits repayable on demand if available within 24 hours without penalty, including overdrafts.
Financing: Borrowings, less overdrafts which have been treated as cash.
Liquid resources: Investments and deposits, other than those included as cash, which are readily convertible into known amounts of cash.

Accounting policies

Basis of preparation
The consolidated financial statements are prepared under the historical cost convention with the exception of certain tangible fixed assets and in accordance with applicable accounting standards. The results for the years ended 31 March 2005 and 31 March 2004 represent continuing operations.

Basis of consolidation
The consolidated financial statements comprise the accounts of the Company and its subsidiaries. The results of all subsidiaries are taken from their accounts made up to 31 March or such earlier date (not prior to 31 December) which represents their financial period end, as adjusted for material items that have occurred in the intervening period. The results of subsidiaries, joint ventures and associated undertakings disposed of or acquired during the year are included up to, or from, the date that control passes.

Foreign currencies
Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of profit for the financial year.

On consolidation, average exchange rates have been used to translate the results of overseas subsidiaries, joint ventures and associated undertakings. The assets and liabilities of overseas subsidiaries and associated undertakings are translated into Sterling at year-end rates.

Exchange differences arising from the retranslation at year-end exchange rates of:
(i) the opening net investment in overseas subsidiaries, joint ventures and associated undertakings and foreign currency borrowings in so far as they are matched by those overseas investments; and
(ii) the results of overseas subsidiaries, joint ventures and associated undertakings:
are dealt with in Group reserves.

Turnover
Turnover represents the invoiced value or contracted amount of goods and services supplied by the Company and its subsidiaries. Turnover is stated net of actual product returns and excludes value added tax and similar sales-related taxes. Provision is also made in respect of expected future returns of goods and services supplied by the Company and its subsidiaries prior to the balance sheet date.

Pension costs
Pension costs, which are determined in accordance with SSAP 24 - *Accounting for Pension Costs* are charged to the profit and loss account so as to spread the cost of pensions over the working lives of the employees within the Group. Valuation surpluses or deficits are amortised over the expected remaining working life within the Group of the relevant employees (estimated to be nine years in respect of the UK). The amortisation of valuation surpluses is restricted to an amount equal to the regular pension cost. Accordingly, employer expense in respect of the main scheme, which covers employees in the UK, has been taken as £nil for each of the two years ended 31 March 2005.

Joint ventures and associated undertakings
Where the Group has an investment in an entity which is sufficient to give the Group a participating interest, and over which it is in a position to exercise significant influence, the entity is treated as an associated undertaking and is accounted for using the equity method. Entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and one or more other parties under a contractual arrangement, are treated as joint ventures and are accounted for using the gross equity method.

The results of joint ventures and associated undertakings are taken from their accounts made up to 31 March or such earlier date (not prior to 31 December) which represents their financial period end, as adjusted for material items that have occurred in the intervening period.

New media holdings
Holdings in new media companies that arise as a consequence of licensing, distribution and other similar deals with such companies, are carried at cost. Income from these holdings, net of costs, is only recognised when received as cash and is treated as other operating income. The costs relating to these investments are held within debtors until they are recognised with the related income.

Music copyrights
Music copyrights purchased prior to 1 April 1989 were written off against shareholders' funds on acquisition. Copyrights acquired as a result of acquisitions on or after 1 April 1989 are capitalised as intangible assets in the Group balance sheet, and are amortised by equal annual amounts over not more than 20 years, other than in exceptional circumstances when sufficient ongoing impairment tests can be performed to support a useful economic life of over 20 years. Where a useful economic life of up to 20 years has been adopted, copyrights are reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill and other intangibles
Goodwill and recorded catalogue intangibles arising on acquisitions made after 31 March 1998 are capitalised and amortised over their expected useful life, principally restricted to 20 years, in accordance with FRS10 - *Goodwill and Intangible Assets*. They are reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill arising on acquisitions made before 31 March 1998 has been charged directly against shareholders' funds in the year of acquisition and is included within the profit and loss reserve, yet separately identified within the reserves note. This goodwill will remain in reserves until, on the disposal or closure of any business, the profit and loss account includes a charge in respect of the goodwill previously written off against shareholders' funds on the acquisition of the business.

Tangible fixed assets
Assets are held at historical cost with the exception that certain properties in the subsidiary undertaking Toshiba-EMI Limited are carried at revalued amounts that were frozen as permitted on first-time adoption, under the transitional rules, of FRS 15 – *Tangible Fixed Assets*. The frozen carrying value was deemed cost in the case of these properties.

Leased assets
Assets held under finance leases are included as tangible fixed assets at their estimated purchase cost and depreciated over their expected useful lives, or over the primary lease period, whichever is shorter. The obligations relating to finance leases (net of finance charges allocated to future periods) are included under borrowings due within or after one year, as appropriate. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the lease term.

Depreciation of tangible fixed assets
Depreciation of tangible fixed assets is calculated on cost at rates estimated to write off the cost, less the estimated residual value of the relevant assets, by equal annual amounts over their expected useful lives; effect is given, where necessary, to commercial and technical obsolescence.

The annual rates used are:

Freehold buildings and long-term leasehold property	2%
Short-term leasehold property	Period of lease
Plant, equipment and vehicles	10-33 1/3%

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Assets in the course of construction are held at cost and are depreciated from the date the asset comes into use.

Stocks
Stocks and work in progress are stated at the lower of cost and net realisable value, less progress payments on uncompleted contracts and provisions for expected losses. Cost includes manufacturing overheads where appropriate.

Advances to artists
Advances to artists and repertoire owners are assessed and the value of the unrecouped portion to be included in debtors is determined by the prospects of future recoupment, based on past sales performance, current popularity and projected sales.

Taxation
The Company has undertaken to discharge the liability to corporation tax of the majority of its wholly-owned UK subsidiaries. Their UK tax liabilities are therefore dealt with in the accounts of the Company.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more tax, or right to pay less, or to receive more, tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets.
- Provision is made for gains which have been rolled over into replacement assets only to the extent that, at the balance sheet date, there is a commitment to dispose of the replacement assets.
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Financial instruments
Any premium or discount associated with the purchase of interest rate instruments is amortised over the life of the transaction. Interest receipts and payments are accrued to match the net income or cost with the related finance expense. No amounts are recognised in respect of future periods.

Directly attributable issue costs have been reported as a reduction in the proceeds of the relevant capital instrument and are amortised over the life of the instrument.

Notes to the financial statements

for the year ended 31 March 2005

1. Segmental analyses

	EMI Music £m	EMI Music Publishing £m	2005 Total £m	EMI Music £m	EMI Music Publishing £m	2004 Total £m
By class of business:						
Group turnover	1,542.1	400.7	1,942.8	1,722.8	397.9	2,120.7
Group operating profit (loss) before exceptional items and amortisation	132.7	100.2	232.9	147.4	101.9	249.3
Operating exceptional items and amortisation	(7.9)	(42.8)	(50.7)	(132.7)	(56.5)	(189.2)
Group operating profit (loss)	124.8	57.4	182.2	14.7	45.4	60.1
Non-operating exceptional items	0.8	–	0.8	(16.5)	–	(16.5)
Share of operating profits (losses) in associated undertakings	0.4	0.5	0.9	(0.4)	0.1	(0.3)
Finance charges			(92.1)			(96.1)
Profit (loss) on ordinary activities before taxation			91.8			(52.8)
Operating assets (liabilities)	(3.4)	341.3	337.9	(45.7)	343.7	298.0
Average employees (No.)	6,043	629	6,672	7,373	623	7,996

	United Kingdom £m	Rest of Europe £m	Latin America £m	North America £m	Asia Pacific £m	Other £m	2005 Total £m
By origin:							
Group turnover	305.8	618.1	55.8	574.9	365.2	23.0	1,942.8
Group operating profit (loss) before exceptional items and amortisation	48.7	86.6	3.2	70.9	18.9	4.6	232.9
Operating exceptional items and amortisation*	(5.5)	(6.3)	(0.6)	(36.1)	(2.2)	–	(50.7)
Group operating profit (loss)	43.2	80.3	2.6	34.8	16.7	4.6	182.2
Non-operating exceptional items							0.8
Share of operating profits (losses) in associated undertakings							0.9
Finance charges							(92.1)
Profit (loss) on ordinary activities before taxation							91.8
Operating assets (liabilities)	65.8	(45.8)	0.6	265.1	52.9	(0.7)	337.9
Average employees (No.)	1,156	1,623	239	2,124	1,345	185	6,672
By destination:							
Group turnover	299.0	619.7	33.2	578.0	366.3	46.6	1,942.8

	United Kingdom £m	Rest of Europe £m	Latin America £m	North America £m	Asia Pacific £m	Other £m	2004 Total £m
By origin:							
Group turnover	308.6	651.1	44.6	671.9	423.6	20.9	2,120.7
Group operating profit (loss) before exceptional items and amortisation	53.6	62.0	(1.8)	99.2	32.5	3.8	249.3
Operating exceptional items and amortisation*	(39.1)	(58.0)	(1.1)	(62.1)	(25.2)	(3.7)	(189.2)
Group operating profit (loss)	14.5	4.0	(2.9)	37.1	7.3	0.1	60.1
Non-operating exceptional items							(16.5)
Share of operating profits (losses) in associated undertakings							(0.3)
Finance charges							(96.1)
Profit (loss) on ordinary activities before taxation							(52.8)
Operating assets (liabilities)	17.8	(52.3)	(0.6)	256.8	76.7	(0.4)	298.0
Average employees (No.)	1,199	2,338	324	2,464	1,403	268	7,996
By destination:							
Group turnover	304.4	649.2	21.5	678.9	422.1	44.6	2,120.7

* Comprises operating exceptional items of £nil (2004: £(138.3)m) and amortisation of goodwill and music copyrights of £(50.7)m (2004: £(50.9)m).

Operating profit is analysed instead of profit before taxation as finance charges are borne centrally and are not allocated to the operating businesses. Operating assets include deferred consideration of £0.9m (2004: £69.8m) which is not conditional upon the satisfaction of future performance criteria.

The reconciliation of operating assets to net liabilities is as follows:

	Note	2005 £m	2004 £m
Operating assets		337.9	298.0
Tax, dividends and net interest payable		(255.5)	(265.7)
Capital employed		82.4	32.3
Net borrowings	16	(829.5)	(748.7)
Net liabilities		(747.1)	(716.4)

2. Group operating profit

	2005 £m	2004 £m
An analysis of costs (income) is as follows:		
Cost of sales	1,225.3	1,404.7
Cost of sales is analysed as:		
– normal	1,179.5	1,286.0
– exceptional items and music copyright amortisation	45.8	118.7
Net operating expenses:		
Distribution costs	69.6	92.0
Administration expenses	504.0	583.5
Other operating income, net*	(38.3)	(19.6)
	535.3	655.9
Net operating expenses are analysed as:		
– normal	530.4	585.4
– exceptional items and goodwill amortisation	4.9	70.5

* Other operating income principally comprises the Group's share of income from joint marketing arrangements.

	2005 £m	2004 £m
Operating profit is stated after charging:		
Amortisation of music copyrights	45.8	46.9
Amortisation of goodwill	4.9	4.0
Depreciation of tangible fixed assets	23.9	35.0
Operating lease rentals:		
Property	29.5	26.4
Plant, equipment and vehicles	3.4	4.2
Research and development expenditure	–	0.1

3. Fees to auditors

	2005 £m	2004 £m
Audit fees paid to Ernst & Young LLP	2.4	2.3
Audit fees paid to other firms	0.1	0.1
Other fees paid to Ernst & Young LLP*:		
UK	0.1	0.9
Non-UK	0.4	0.5
Total	3.0	3.8

* Other fees include £0.3m (2004: £0.5m) paid to Ernst & Young LLP for tax compliance and planning services, and £0.2m (2004: £0.9m) for regulatory and other assurance.

4. Directors' and employees' costs

	2005 £m	2004 £m
Aggregate emoluments paid to Directors	9.7	7.4
Wages and salaries	277.7	324.2
Social security costs	41.4	49.1
Other pension costs (see Note 27)	10.9	12.8
Total	339.7	393.5

Details of each Director's remuneration, compensation for loss of office, pension entitlements, long-term incentive scheme interests and share options are included in the Remuneration report.

5. Finance charges

	£m	2005 £m	£m	2004 £m
Interest payable on:				
Bank overdrafts and loans	81.7		72.3	
Other	13.2		17.3	
		94.9		89.6
Interest receivable on:				
Bank balances	(2.2)		(2.0)	
Other	(0.6)		(1.7)	
		(2.8)		(3.7)
Group finance charges (including associated undertakings)*		92.1		85.9
Finance exceptional charge (Note 8(iii))		–		10.2
Total		92.1		96.1

* Finance charges for associated undertakings are £nil (2004: £nil).

Finance charges include £6.6m (2004: £5.8m) of one-off costs, charges or expenses that are not continuing, regular or periodic.

The Group holds various financial instruments in order to manage interest rate risk. Details of those financial instruments held at the year end are given in Note 17 (viii).

The Group reported issue costs directly attributable to new debt instruments in the prior year as a reduction from the proceeds, as required by FRS4 – *Capital Instruments*. £10.2m was charged against profit in respect of programme costs not directly attributable to new instruments.

6. Taxation

	2005 £m	2004 £m
(i) Analysis of tax charge in year		
Current tax:		
UK corporation tax	4.3	5.3
Double taxation relief	(4.3)	(5.3)
	–	–
Withholding tax	7.1	9.5
Other foreign tax	28.2	17.4
Adjustments in respect of prior periods	(6.9)	(2.8)
Total current tax	28.4	24.1
Deferred tax:		
Origination and reversal of timing differences	2.8	(4.5)
Others:		
Associated undertakings	–	0.1
Tax on profit on ordinary activities	31.2	19.7
(ii) Factors affecting current tax charge for year		
Profit (loss) on ordinary activities before tax	91.8	(52.8)
Tax at weighted average rate	36.6	(20.4)
Effects of:		
Expenses not deductible for tax purposes	24.1	60.3
Timing differences	(3.3)	(2.5)
Utilisation of tax losses and other credits, principally in the US	(45.0)	(59.2)
Origination of tax losses	15.7	39.2
Withholding tax and other	0.3	6.7
Total current tax	28.4	24.1

The weighted average tax rate is calculated by applying statutory tax rates to actual taxable profits and losses in the countries of operation.

The prior-year UK corporation tax charge included the attributable taxation charge relating to non-operating exceptional items falling within the UK tax jurisdiction.

(iii) Factors that may affect future tax charges
No provision has been made for deferred tax where potentially taxable gains have been rolled over into replacement assets, except where there is a commitment to dispose of these assets. Such gains would only become taxable if the assets were sold without it being possible to claim roll-over relief or offset existing capital losses. The Group does not expect any such tax to become payable in the foreseeable future.

No deferred tax has been recognised in respect of tax on gains arising from the revaluation of fixed assets, as the Group is not committed to the disposal of these assets. No deferred tax has been recognised in respect of the earnings of overseas subsidiaries as no dividends have been accrued.

Deferred tax assets which have not been recognised are tax losses and credits with a value of £124.2m, capital allowances in advance of depreciation with a value of £8.8m, and other timing differences with a value of £12.7m, as there is insufficient certainty as to the availability of future taxable profits.

7. Dividends (equity)

	2005 Per share	2004 Per share	2005 £m	2004 £m
Ordinary dividends (net):				
Interim	2.0p	2.0p	15.7	15.8
Adjustment to 2005 and 2004 interim	–	–	–	(0.1)
Proposed final	6.0p	6.0p	47.4	47.1
Adjustment to 2004 and 2003 final	–	–	0.1	(0.3)
Total	8.0p	8.0p	63.2	62.5

Subject to the approval of shareholders, the final dividend of 6.0p per share will be paid on 7 October 2005 to shareholders on the register at the close of business on 9 September 2005.

8. Exceptional items

(i) Operating exceptional items

	2005 £m	2004 £m
Impact of destocking in Japan, including amended return terms	–	(16.7)
Restructuring and reorganisation costs:		
EMI Music Publishing: headcount reduction and system write-offs	–	(6.6)
EMI Music: headcount and roster reduction and other*	(3.8)	(84.5)
Release of overprovision for reorganisation costs charged in prior year	3.8	–
Asset impairment and other**	–	(22.6)
Proposed acquisition of Warner Music – deal costs	–	(7.9)
Total	–	(138.3)

* Headcount reduction (£3.8m) (2004: headcount reduction (£51.7m), roster reduction (£20.6m), vacant property provisions and asset write-downs (£3.5m), distribution changes and integration costs (£4.6m) and other (£4.1m)).
** (2004: write-downs of music copyrights (£4.5m) and goodwill (£18.1m)).

The attributable taxation credit relating to operating exceptional items is £nil (2004: £14.4m).

In 2004, assets were written down to their net realisable value or to a value in use based on a discounted cash flow projection. Discount rates of 6% to 14% were applied in the impairment reviews completed during that year. The discount rates were appropriate to the divisions and the assets being valued.

The share of the operating exceptional items attributable to minority interests is £0.2m (2004: £7.2m).

(ii) Non-operating exceptional items

	2005 £m	2004 £m
Losses on sale and closure of manufacturing business*	–	(45.5)
Net gain on sale of fixed assets and investments**	0.8	24.0
Profit on sale of HMV Group plc***	–	5.0
Total	0.8	(16.5)

* (2004: costs of redundancies (£11.8m), losses on sale or decommissioning of fixed assets (£12.1m), losses on sales of stocks (£12.0m) and integration costs (£9.6m)).
** Comprises gains (losses) on sale of properties (2004: gains (losses) on sale of properties).
*** (2004: release of a provision to cover EMI Group plc's pension liability no longer required).

The attributable taxation charge relating to non-operating exceptional items is £nil (2004: £1.6m).

(iii) Finance exceptional charge

	2005 £m	2004 £m
Costs incurred as part of the Group's refinancing programme (see Note 5)	–	(10.2)
Total	–	(10.2)

9. Earnings per Ordinary Share

	2005	2004
Earnings per Ordinary Share is calculated as follows:		
Earnings	£56.3m	£(71.6)m
Adjusted earnings	£106.3m	£124.3m
Basic		
Weighted average number of Ordinary Shares in issue	785.6m	784.4m
Diluted		
Adjusted weighted average number of Ordinary Shares	872.8m	826.5m

The adjusted weighted average number of Ordinary Shares used in the diluted earnings per share calculations, 872.8m (2004: 826.5m), is the weighted average number of Ordinary Shares in issue, 785.6m (2004: 784.4m), plus adjustments for dilutive share options, 8.4m (2004: 2.9m), plus adjustments for convertible bond options, 78.9m (2004: 39.2m).

Adjusted earnings are included as they provide a better understanding of the underlying trading performance of the Group on a normalised basis.

Reconciliation of adjusted earnings

	Year ended 31 March 2005 £m	Year ended 31 March 2005 Per share	Year ended 31 March 2004 £m	Year ended 31 March 2004 Per share
Earnings/basic EPS	56.3	7.2p	(71.6)	(9.1)p
Adjustments:				
Exceptional items and attributable taxation	(0.8)	(0.1)p	152.2	19.3p
Amortisation of goodwill and music copyrights	50.9	6.4p	51.1	6.5p
Minority interest (re music copyright amortisation)	(0.3)	0.0p	(0.4)	0.0p
Minority interest (re operating exceptional items and attributable taxation)	0.2	0.0p	(7.0)	(0.9)p
Adjusted earnings/adjusted EPS	106.3	13.5p	124.3	15.8p
Convertible bond	6.9	(0.5)p	3.7	(0.3)p
Adjusted earnings/adjusted diluted EPS	113.2	13.0p	128.0	15.5p

10. Music copyrights

Group

	£m
Cost at 31 March 2004	783.6
Currency retranslation	(13.9)
Additions	6.0
Disposals	(1.8)
Other	0.3
Cost at 31 March 2005	**774.2**
Amortisation at 31 March 2004	334.9
Currency retranslation	(7.2)
Charge for year	45.8
Disposals	(1.6)
Write-down of music copyrights	–
Other	(0.5)
Amortisation at 31 March 2005	**371.4**
Net book values at 31 March 2005	**402.8**
31 March 2004	448.7

11. Goodwill (capitalised)

Group

	£m
Cost at 31 March 2004	71.8
Currency retranslation	0.2
Acquisition of businesses	5.9
Cost at 31 March 2005	**77.9**
Amortisation at 31 March 2004	40.0
Currency retranslation	(0.2)
Charge for year	4.9
Amortisation at 31 March 2005	**44.7**
Net book values at 31 March 2005	**33.2**
31 March 2004	31.8

12. Tangible fixed assets

Group

	Freehold property £m	Leasehold property £m	Plant, equipment and vehicles £m	Total £m
Cost at 31 March 2004	132.9	62.1	208.6	403.6
Currency retranslation and reclassification	(13.5)	(0.9)	(24.5)	(38.9)
Acquisition of businesses	–	–	–	–
Disposal of businesses	–	–	(4.6)	(4.6)
Additions	2.5	1.8	25.6	29.9
Disposals	(6.1)	(0.4)	(12.8)	(19.3)
Impairment of revalued property	(18.5)	–	–	(18.5)
Cost at 31 March 2005	**97.3**	**62.6**	**192.3**	**352.2**
Depreciation at 31 March 2004	29.6	16.1	155.2	200.9
Currency retranslation and reclassification	(2.6)	(0.2)	(33.4)	(36.2)
Disposal of businesses	–	–	(2.8)	(2.8)
Charge for year	2.3	2.9	18.7	23.9
Disposals	(4.4)	(0.4)	(11.9)	(16.7)
Depreciation at 31 March 2005	**24.9**	**18.4**	**125.8**	**169.1**
Net book values at 31 March 2005	**72.4**	**44.2**	**66.5**	**183.1**
31 March 2004	103.3	46.0	53.4	202.7

Freehold property includes land having a cost of £31.6m (2004: £52.9m) which is not depreciated. The depreciation charge for the year includes depreciation of assets held under finance leases of £nil (2004: £nil).

The impairment charge results from a comparison of the carrying value with the higher of net realisable value and value in use.

Group

	2005 £m	2004 £m
The net book values shown above include the following:		
Long-term leasehold property	4.8	4.2
Short-term leasehold property	39.4	41.8
Finance lease assets	–	0.1
Assets in the course of construction	17.4	3.5

Properties held by Toshiba-EMI Limited were carried at a revalued amount prior to the implementation of FRS15 - *Tangible Fixed Assets* in the year ended 31 March 2000. The revalued amount was based on third party expert valuation. Under the transitional arrangements of that standard, the carrying value of these properties has been retained. These properties are currently held at net book value of £37.2m (2004: £59.2m). The comparable amount under the historical cost convention would be £14.3m (2004: £15.7m).

Company

	Freehold property £m	Leasehold property £m	Plant, equipment and vehicles £m	Total £m
Cost at 31 March 2004	8.8	24.9	14.9	48.6
Additions	–	–	–	–
Disposals and transfers	(4.4)	(0.9)	(12.4)	(17.7)
Cost at 31 March 2005	**4.4**	**24.0**	**2.5**	**30.9**
Depreciation at 31 March 2004	2.0	3.7	11.2	16.9
Charge for year	0.1	1.5	0.1	1.7
Disposals and transfers	(1.3)	(0.3)	(9.4)	(11.0)
Depreciation at 31 March 2005	**0.8**	**4.9**	**1.9**	**7.6**
Net book values at 31 March 2005	**3.6**	**19.1**	**0.6**	**23.3**
31 March 2004	6.8	21.2	3.7	31.7

13. Fixed asset investments

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Investments comprise:				
Subsidiary undertakings	–	–	2,225.0	2,210.9
Associated undertakings	8.1	5.4	0.6	0.6
Other fixed asset investments	14.8	13.9	0.3	0.2
Total	22.9	19.3	2,225.9	2,211.7
Listed investments	2.6	–	–	–
Unlisted investments	20.3	19.3	2,225.9	2,211.7
	22.9	19.3	2,225.9	2,211.7

The market value of listed investments at 31 March 2005 was £2.7m (2004: £nil).

(i) Investments in subsidiary undertakings

Company

	Cost of shares £m	Loans £m	Provisions £m	Net book value £m
At 31 March 2004	2,027.0	304.4	(120.5)	2,210.9
Additions	–	14.6	–	14.6
Disposals, transfers and other movements	–	(0.5)	–	(0.5)
At 31 March 2005	2,027.0	318.5	(120.5)	2,225.0

The subsidiary undertakings set out below are those which were part of the Group at 31 March 2005 and in the opinion of the Directors significantly affected the Group's results and net assets during the year. Except where otherwise stated, the country of incorporation is England, the operations are within the United Kingdom, the shares are in equity share capital and the businesses are wholly owned.

Recorded Music and Music Publishing
Capitol-EMI Music, Inc. (USA)
Capitol Records, Inc. (USA)
Chrysalis Records Ltd
EMI Music Germany GmbH & Co.KG
EMI Entertainment World, Inc. (USA)
EMI Music Australia Pty Ltd (Australia)
EMI Music France S.A. (France)
EMI Music Italy SpA (Italy)
EMI Music Publishing Ltd
EMI Records Ltd
Jobete Music Co., Inc. (USA)
Priority Records, LLC (USA)
Toshiba-EMI Ltd (Japan) (55% owned)
Virgin Records America, Inc. (USA)
Virgin Records Ltd

Corporate
EMI Group Finance plc*
EMI Group Finance (Jersey) Ltd*
EMI Group Holdings (UK) Ltd
EMI Group International Holdings Ltd
EMI Group North America Holdings, Inc. (USA)
EMI Group North America, Inc. (USA)
EMI Group Worldwide Ltd
Virgin Music Group Ltd*
* Held directly by the company.

13. Fixed asset investments (continued)

Purchase of businesses

The Group did not acquire any businesses during the year.

On 2 April 2004, the Group purchased the outstanding 10% minority interest in EMI Greece for a cash consideration of £3.1m. This, combined with £0.4m of consideration paid in advance during the last financial year, resulted in £3.5m additional goodwill being created.

On 1 October 2004, the Group purchased the outstanding 49% minority interest in EMI Poland for a cash consideration of £2.9m. The transaction resulted in £1.9m additional goodwill being created.

A further £0.7m of cash consideration was paid to acquire outstanding minority interests in Indonesia and the Netherlands and to satisfy additional consideration commitments in Sweden, South Korea and the UK.

(ii) Associated undertakings

Group

	Net equity investment £m	Goodwill written off £m	Share of net assets £m	Capitalised goodwill £m	Loans £m	Net book value £m
At 31 March 2004	46.1	(43.4)	2.7	2.2	0.5	5.4
Currency retranslation	(0.2)	–	(0.2)	–	–	(0.2)
Additions* and new loans	2.1	–	2.1	–	–	2.1
Net profits after tax	1.1	–	1.1	(0.2)	–	0.9
Disposals, provisions and loans repaid	(0.1)	–	(0.1)	–	–	(0.1)
At 31 March 2005	49.0	(43.4)	5.6	2.0	0.5	8.1

* Total consideration on purchase of associated undertakings comprises costs and loans totalling £2.1m (2004: £0.1m).

Company

	Cost of shares £m	Provisions £m	Net book value £m
At 31 March 2004	0.7	(0.1)	0.6
At 31 March 2005	0.7	(0.1)	0.6

The Company holds investments at cost, less provisions for impairment.

(iii) Other fixed asset investments

	Cost of shares £m	Provisions £m	Group Net book value £m	Cost of shares £m	Provisions £m	Company Net book value £m
At 31 March 2004	19.8	(5.9)	13.9	2.5	(2.3)	0.2
Purchases	(0.2)	–	(0.2)	0.1	–	0.1
Currency retranslation	2.9	–	2.9	–	–	–
Disposals and reclassifications	(1.8)	–	(1.8)	–	–	–
At 31 March 2005	20.7	(5.9)	14.8	2.6	(2.3)	0.3

Notes to the financial statements
continued

14. Stocks

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Raw materials and consumables	1.5	1.8	–	–
Work in progress	2.0	1.7	–	–
Finished goods	24.7	24.6	–	–
Total	28.2	28.1	–	–

15. Debtors

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Due within one year:				
Trade debtors	300.1	345.3	–	0.9
Amounts owed by subsidiary undertakings	–	–	2,459.5	2,422.3
Amounts owed by associated undertakings	0.5	0.8	–	–
Corporate taxation recoverable	21.2	13.4	–	–
Other debtors	95.4	72.9	5.5	9.3
Prepayments and accrued income	285.9	271.0	0.8	0.3
Deferred tax	17.7	19.2	–	–
	720.8	722.6	2,465.8	2,432.8
Due after more than one year:				
Other debtors	6.6	7.8	–	0.4
Prepayments and accrued income	72.9	80.5	–	–
	79.5	88.3	–	0.4
Total	800.3	810.9	2,465.8	2,433.2

Other debtors due within one year includes £0.9m (2004: £1.6m) book value of listed investments with a market value of £1.6m (2004: £2.1m).

16. Borrowings

	Due date	Issue date	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Long-term borrowings						
US$500m 8.375% Guaranteed Notes	August 2009	August 1999	263.2	269.6	–	–
£325m 8.25% Sterling Bonds	May 2008	May 2002	322.1	321.3	322.2	321.3
US$123.8m 6.96% Senior Notes	August 2007	August 2002	48.7	67.3	–	–
US$243.3m 5.25% Guaranteed Convertible Bonds *	October 2010	October 2003	123.5	126.0	–	–
€425m 8.625% Senior Notes	October 2013	October 2003	285.3	274.8	282.5	274.8
Drawings under long-term committed facilities **			(1.9)	(2.9)	(1.9)	(2.9)
Term loan	December 2006		1.1	1.9	–	–
Finance leases			–	0.1	–	–
Total long-term borrowings			1,042.0	1,058.1	602.8	593.2
Short-term borrowings						
Loans and overdrafts			11.8	34.7	–	–
Finance leases			–	–	–	–
Short-term element of long-term loans ***			18.2	1.1	–	–
Total short-term borrowings			30.0	35.8	–	–
Total borrowings			1,072.0	1,093.9	602.8	593.2
Liquid funds:						
Investments: liquid funds			(1.6)	(1.8)	–	–
Cash at bank and in hand and cash deposits			(240.9)	(343.4)	(1.3)	(5.0)
Net borrowings			829.5	748.7	601.5	588.2

* These will be convertible into fully-paid Preference Shares of the issuer which will be exchangeable immediately upon issue for fully-paid Ordinary Shares in EMI Group plc. On conversion each US$ principal amount is converted into one Preference Share of a paid-up value of US$1,000. The Preference Share will, in turn, be immediately exchangeable for Ordinary Shares in EMI Group plc. The number of Ordinary Shares for which a Preference Share may be exchanged will be determined by dividing the paid-up value of the Preference Share, translated into Sterling at a fixed rate of US$1.5957, by the exchange price initially set at 193.38p per Ordinary Share. Conversion by the holder at 193.38p per Ordinary Share may occur after 11 November 2003 until seven days prior to the final redemption date. Conversion by the issuer, after 16 October 2007, of all but not part, may occur if the average price per Ordinary Share on at least 20 dealing days in any period of 30 consecutive dealing days has been 130p; or at any time if 85% or more of the aggregate principal amount has been previously purchased, redeemed or cancelled. Redemption by the issuer, after 16 October 2007, may occur if the same conditions which apply to conversion by the issuer are met. Final redemption is on 2 October 2010 at 100% of principal and accrued interest.

** Issue costs relating to syndicated revolving credit facility in 2004.

*** Includes a £16.4m prepayment of the US$123.8m 6.96% Senior Notes due in August 2005.

On 15 July 2004, the Group signed an additional 364 day £100m committed credit facility with a group of banks.

On 2 and 3 October 2003, the Group completed a major restructuring of its borrowings. Five separate but related transactions were completed:
(a) the issue of €425m 8.625% Senior Notes due 2013;
(b) the issue of US$243.3m Guaranteed Convertible Bonds due 2010, unless previously redeemed, converted or purchased and cancelled;
(c) the cancellation of the existing revolving credit bank facilities expiring 2005;
(d) the finalisation of a new £250m revolving credit bank facility expiring 2007 (see Note 17(v) for level of undrawn facilities as at 31 March 2005); and
(e) prepayment of US$25m Senior Notes due 2012 and US$31.25m Senior Notes due 2009.

Long-term borrowings include £nil (2004: £nil) of borrowings repayable within one year, which are drawings under long-term committed facilities and, therefore, have been classified as such. Long-term borrowings are stated after deduction of issue costs which are capitalised and amortised over the term of the borrowing. Issue costs are defined as incremental costs that are incurred directly in connection with the issue of a capital instrument and include arrangement and underwriting fees.

Under their banking arrangements, overdraft and cash balances of the Company and of certain subsidiaries are pooled or offset and cross-guaranteed. Such pooling and offsets are reflected in the Group Balance sheet as appropriate.

The Group has balances of cash and liquid funds totalling £113.1m held with banks within the UK and £129.4m held with banks outside, but freely transferable to, the UK.

Maturity analysis of long-term borrowings

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Amounts falling due after more than one year are repayable as follows:				
Between one and two years	1.1	2.0	–	–
Between two and five years	632.1	385.7	–	–
After five years:				
By instalments	–	–	–	–
Other	408.8	670.4	602.8	593.2
Total	1,042.0	1,058.1	602.8	593.2

The amount of debt, any of which falls due for payment after more than five years, is £408.8m (2004: £670.4m).

17. Derivatives and other financial instruments

The Group has excluded all short-term debtors and creditors from the following disclosures, other than currency exposures.

(i) Interest rate risk profile of the financial liabilities of the Group

	At 31 March 2005				At 31 March 2004			
Currency	Total* £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Total* £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m
Sterling	321.4	(0.8)**	322.1	0.1	319.8	(1.7)**	321.3	0.2
US Dollar	462.6	266.1	188.6	7.9	481.0	277.8	193.3	9.9
Yen	2.1	–	–	2.1#	19.6	17.3	–	2.3#
Euro	288.4	288.4	–	–	276.8	276.8	–	–
Other	7.7	7.6	–	0.1	9.6	9.1	–	0.5
Total	1,082.2	561.3	510.7	10.2	1,106.8	579.3	514.6	12.9

* Excludes short-term creditors as permitted by FRS13.
** Includes issue costs of syndicated loan facility of £1.9m (2004: £2.9m).
\# Represents deposits from retailers. The deposits are repayable when trading ceases and, therefore, there is no fixed term to maturity.

	At 31 March 2005			At 31 March 2004		
	Fixed rate financial liabilities		Financial liabilities on which no interest is paid	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Currency	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Sterling	9.8	3.2	–	9.8	4.2	–
US Dollar	6.4	4.2	–	6.4	4.8	–
Yen	–	–	n/a*	–	–	n/a*
Euro	–	–	–	–	–	–

* Represents deposits from retailers. The deposits are repayable when trading ceases and, therefore, there is no fixed term to maturity.

Floating rate financial liabilities comprise bank borrowings. All floating rate financial liabilities bear interest at rates fixed by reference to the applicable bank reference rate in the relevant country for periods ranging from overnight to six months.

The figures shown in the tables above take into account various interest rate and currency swaps used to manage interest rate risk and the currency profile of financial liabilities. See Note 17 (viii) for further details of interest rate swaps held as at 31 March 2005.

(ii) Interest rate risk profile of the financial assets of the Group

	At 31 March 2005				At 31 March 2004			
Currency	Total* £m	Floating rate financial assets £m	Fixed rate financial assets £m	Financial assets on which no interest is earned# £m	Total* £m	Floating rate financial assets £m	Fixed rate financial assets £m	Financial assets on which no interest is earned# £m
Sterling	174.7	113.1	–	61.6	202.3	141.7	–	60.6
US Dollar	41.8	15.3	–	26.5	97.6	59.6	–	38.0
Yen	23.8	20.4	–	3.4	43.7	38.3	–	5.4
Euro	35.3	33.7	–	1.6	57.4	55.0	–	2.4
Swedish Krona	3.7	3.3	–	0.4	2.6	2.1	–	0.5
Danish Krone	1.2	1.1	–	0.1	1.1	1.0	–	0.1
Other	59.9	55.6	–	4.3	48.2	47.5	–	0.7
Total	340.4	242.5	–	97.9	452.9	345.2	–	107.7

* Excludes short-term debtors as permitted by FRS13.
\# Financial assets on which no interest is earned represent mainly advances to artists and investments for which no meaningful average fixed period to maturity can be calculated.

Floating rate financial assets comprise cash at bank and deposits. All floating rate financial assets earn interest at rates fixed in advance by reference to the applicable bank reference rate in the relevant country for periods ranging from overnight to six months.

17. Derivatives and other financial instruments (continued)

(iii) Currency exposures

As explained on page 36 in the Financial review, the Group's objective in managing currency exposures arising from its net investments overseas (its structural currency exposures) is to maintain appropriate levels of borrowings by currency to hedge partially against currency depreciation. Gains and losses arising from these structural currency exposures are recognised in the Statement of total recognised gains and losses.

The table below shows the Group's currency exposures, being those trading assets and liabilities (or non-structural exposures) that give rise to the net currency gains and losses recognised in the Consolidated profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or functional) currency of the operating unit involved, other than certain non-Sterling borrowings treated as hedges of net investments in overseas operations. These exposures were as follows:

At 31 March 2005

	Net foreign currency monetary assets (liabilities)				
Functional currency of Group operation	Sterling £m	US Dollar £m	Yen £m	Euro £m	Other £m
Sterling	n/a	0.2	0.9	10.7	14.2
US Dollar	(0.2)	n/a	0.3	(0.1)	2.3
Yen	(1.3)	(1.9)	n/a	(0.8)	0.3
Euro	0.7	0.4	–	n/a	0.6
Other	(2.2)	0.9	(5.1)	(2.7)	(1.2)
Total	**(3.0)**	**(0.4)**	**(3.9)**	**7.1**	**16.2**

At 31 March 2004

	Net foreign currency monetary assets (liabilities)				
Functional currency of Group operation	Sterling £m	US Dollar £m	Yen £m	Euro £m	Other £m
Sterling	n/a	(6.6)	9.1	8.7	15.1
US Dollar	3.5	n/a	–	(0.4)	(0.4)
Yen	(0.5)	(0.2)	n/a	–	0.2
Euro	9.5	(2.8)	(0.1)	n/a	1.4
Other	(3.8)	(0.6)	(5.3)	0.2	–
Total	8.7	(10.2)	3.7	8.5	16.3

(iv) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, other than short-term creditors such as trade creditors and accruals, was as follows:

	2005 £m	2004 £m
In one year or less, or on demand	30.0	35.8
In more than one year but not more than two years	2.5	3.6
In more than two years but not more than five years	634.5	391.0
In more than five years	415.2	676.4
Total	**1,082.2**	**1,106.8**

17. Derivatives and other financial instruments (continued)

(v) Undrawn facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 March in respect of which all conditions precedent had been met at that date were as follows:

	2005 £m	2004 £m
Expiring in one year or less	116.4	14.4
Expiring in more than one year but not more than two years	–	–
Expiring in more than two years	236.9	242.8
Total	353.3	257.2

(vi) Fair values of financial assets (liabilities)

	2005 Book value £m	2005 Fair value* £m	2004 Book value £m	2004 Fair value* £m
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings and current portion of long-term borrowings	(13.6)	(13.6)	(35.8)	(35.8)
Long-term borrowings	(1,058.4)	(1,228.2)	(1,058.1)	(1,270.1)
Liquid funds	242.5	242.5	345.2	345.2
Other financial liabilities	(10.2)	(10.2)	(12.9)	(12.9)
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps	–	8.3	–	12.6
Interest rate caps and collars	–	–	–	–
Currency swaps and forward foreign currency contracts	–	–	–	–
Financial assets:				
Financial assets – listed investments	3.5	4.3	1.6	2.1
Financial assets – other	94.4	94.4	106.1	106.1

* Market rates have been used to determine fair values.

Long-term borrowings include US$500m 8.375% Guaranteed Notes (book value £263.2m) with a fair value of £286.8m and €425m 8.625% Senior Notes (book value £285.3m) with a fair value of £347.0m. The Group holds equivalent US Dollar and Euro nominal value interest rate swaps matching the coupon on both the US$ Notes and Euro Bond, effectively converting the interest basis to floating rate (set in arrears). At 31 March 2005, these swaps had a fair value of £(10.6)m and £18.9m respectively. Long-term borrowings also include a Sterling Bond issue (book value £322.1m), with a fair value of £349.9m, US$123.75m 6.96% Senior Notes (book value £65.1m) with a fair value of £39.4m and US$243.3m 5.25% guaranteed convertible bond issue (book value £123.5m) with a fair value of £205.9m. The majority of other borrowings and liquid funds are short-term in nature and book values approximate to fair values. For all other financial assets and liabilities, book values approximate to fair values.

(vii) Management of interest rate risk

As explained on page 36 in the Financial review, the Group's policy is to manage interest rate risk, using interest rate swaps, caps and collars. Unrecognised gains and losses on instruments used for managing interest rate risk, and the movements therein, are as follows:

	Gains £m	Losses £m	Total net gains (losses) £m
Unrecognised gains and losses on hedges at 1 April 2004	12.6	–	12.6
Gains and losses arising in previous years that were recognised in 2005	–	–	–
Gains and losses arising before 1 April 2004 that were not recognised in 2005	12.6	–	12.6
Gains and losses arising in 2005 that were not recognised in 2005	9.1	(13.4)	(4.3)
Unrecognised gains and losses on hedges at 31 March 2005	21.7	(13.4)	8.3
Of which:			
Gains and losses expected to be recognised in 2006 or later	–	–	–
Gains and losses expected to be recognised in 2007 or later	21.7	(13.4)	8.3
	21.7	(13.4)	8.3

17. Derivatives and other financial instruments (continued)

(viii) Financial instruments

Interest rate agreements

To manage interest rate risk the Group has entered into certain interest rate swap agreements which, as at 31 March 2005, were as follows:

	Notional principal	Termination date	Fixed rate
Interest rate swaps:			
Euro–receive fixed rate and pay floating rate (set in arrears)	€425m	October 2013	8.63%
US Dollar–receive fixed rate and pay floating rate (set in arrears)	$500m	August 2009	8.38%

In February 2003, following a routine review of derivative positions in the prevailing market conditions, the Group unwound a US$500m interest swap position. The swap effectively switched the 8.375% fixed coupon on the US$ Guaranteed Notes issued in August 1999 to a floating rate of interest. The Group received a cash payment of US$86.2m (£55.6m) on the unwind, representing the present value of the expected cash savings from the swap as determined by the expected differential between US short-term and long-term interest rates, discounted at the prevailing market rate. The gain from the unwind is being amortised over the remaining life of the Notes, thus locking in the future interest cost benefit to be obtained from the swap. The swap unwind reduces the Group's overall interest rate risk.

Exchange rate agreements

As at 31 March 2005, the Group had no currency swaps or forward foreign currency contracts outstanding.

18. Other creditors: amounts falling due within one year

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Trade creditors	205.5	196.7	–	–
Royalties and fees payable	607.7	612.6	–	–
Amounts owed to subsidiary undertakings	–	–	11.4	4.7
Amounts owed to associated undertakings	0.6	0.6	0.6	0.6
Corporate taxation	160.3	159.4	25.3	25.4
Deferred consideration payable*	1.0	81.3	–	–
Other taxes including VAT and social security costs	16.1	18.6	0.2	0.5
Dividends payable	63.1	62.8	63.1	62.8
Other creditors	75.1	71.6	36.4	45.6
Accruals and deferred income	163.3	149.9	11.0	6.9
Total	1,292.7	1,353.5	148.0	146.5

* Deferred consideration payable £0.9m (2004: £69.8m) which is not conditional upon the satisfaction of future performance criteria.

19. Other creditors: amounts falling due after more than one year

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Amounts owed to subsidiary undertakings	–	–	792.6	777.5
Deferred consideration payable*	–	0.2	–	–
Accruals and deferred income	10.2	12.7	–	–
Total	10.2	12.9	792.6	777.5

* Deferred consideration payable includes £nil (2004: £0.2m) which is not conditional upon the satisfaction of future performance criteria.

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20. Deferred taxation

	Group £m	Company £m
At 31 March 2004	(13.5)	–
Provided in year	2.8	–
Acquisitions, disposals and transfers	2.7	–
At 31 March 2005	**(8.0)**	**–**

The liabilities (assets) for deferred tax provided were as follows:

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Capital allowances in advance of depreciation	6.0	5.5	–	–
Other timing differences	3.7	0.2	–	–
Total liabilities	9.7	5.7	–	–
Depreciation in advance of capital allowances	(0.4)	(2.5)	–	–
Other timing differences	(17.3)	(16.7)	–	–
Total assets	(17.7)	(19.2)	–	–
Net asset	**(8.0)**	(13.5)	–	–

Those categories for which no deferred tax is provided are outlined in Accounting policies on page 75.

21. Other provisions for liabilities and charges

Group

	Trading £m	Pensions £m	Disposal and fundamental reorganisation £m	Acquisition and integration £m	Total £m
At 31 March 2004	82.2	31.3	20.3	3.3	137.1
Currency retranslation	0.7	1.5	(0.2)	–	2.0
Provisions utilised	(53.0)	(6.4)	(13.2)	(0.6)	(73.2)
Charged against:					
Operating profit	2.3	5.5	–	–	7.8
Reclassification	0.7	–	1.1	–	1.8
At 31 March 2005	**32.9**	**31.9**	**8.0**	**2.7**	**75.5**

Trading provisions include royalty audit and other trading provisions charged through operating profit before exceptional items. They also include restructuring and reorganisation provisions charged through operating exceptional items (see Note 8(i)). £13.9m of the £32.9m (2004: £63.5m of the £82.2m) are restructuring and reorganisation provisions which will be utilised in the short term.

The majority of the disposal and fundamental reorganisation provision will be utilised in the short term.

The pension provisions arise in overseas companies in respect of state schemes and employees covered by the Group's unfunded schemes.

Company

	Trading £m	Pensions £m	Disposal and fundamental reorganisation £m	Acquisition and integration £m	Total £m
At 31 March 2004	3.1	–	0.4	–	3.5
Provisions utilised	(0.8)	–	(0.4)	–	(1.2)
Charged against operating profit	–	–	–	–	–
At 31 March 2005	**2.3**	**–**	**–**	**–**	**2.3**

22. Share capital and share premium account

Group and Company

	Authorised 2005 £m	Authorised 2004 £m	Allotted, called-up & fully paid 2005 £m	Allotted, called-up & fully paid 2004 £m
Ordinary Shares of 14p each	158.8	158.8	110.6	110.4
B Shares of 114.5p each	479.8	479.8	–	–
Deferred shares of 0.0005p each	17.5	17.5	–	–
	656.1	656.1	110.6	110.4

22. Share capital and share premium account (continued)

(i) Ordinary Shares in issue

	Number	Nominal value £m	Premium £m
At 31 March 2004	788,599,755	110.4	445.8
Shares issued during the year on the exercise of options:			
Executive Schemes	1,074,684	0.2	1.5
Savings-Related Scheme	24,308	–	–
At 31 March 2005	789,698,747	110.6	447.3

As at 31 March 2005, the Company had authority to purchase 78,859,975 of its Ordinary Shares; this authority will expire on 12 October 2005 or at the conclusion of the Annual General Meeting in 2005, whichever is the earlier.

(ii) Share options

Options to subscribe for the Company's Ordinary Shares were outstanding as follows (adjusted for the 1996 demerger and the 1997 share capital reorganisation, where appropriate):

Subscription options

	Executive Share Option Schemes	1994 Savings-Related Share Option Scheme
At 31 March 2004	34,694,566	3,489,600
Granted	6,113,038	513,436
Exercised	(1,074,684)	(24,308)
Lapsed	(3,154,251)	(498,684)
At 31 March 2005	36,578,669*	3,480,044
Option price per 14p share (range)	119.25p – 747p	96p – 442p
Final exercise date*	31 January 2015	28 February 2010

* Of which, options over 26,122,936 shares were granted under the 1995 Executive Share Option Scheme and options over 10,455,733 shares were granted under the 2003 Executive Share Incentive Plan.

Share options for the transfer of the Company's Ordinary Shares were outstanding as follows:

Transfer options

	Executive Share Option Schemes
At 31 March 2004	22,972,678
Granted	1,782,368
Exercised	–
Lapsed	(1,612,178)
At 31 March 2005	23,142,868**
Option price per 14p share (range)	119.25p – 700p
Final exercise date*	17 June 2014

* Options granted under the 1995 Executive Share Option Scheme are normally exercisable no earlier than three years and no later than ten years following the date of grant and are subject to the achievement of performance requirements that must be met before the options normally become exercisable. Options granted under the 2003 Executive Share Incentive Plan, if subject to a pre-vesting performance requirement, are normally exercisable between three and ten years following the date of grant but only if and to the extent that the pre-vesting target has been satisfied. Options granted with the pre-grant conditions normally become exercisable in no fewer than four annual tranches commencing no earlier than the first anniversary of the grant date. Options granted under the 1994 Savings-Related Share Option Scheme are normally exercisable for a six-month period following completion of savings to either a three-year or a five-year savings contract.

** Of which options over 4,764,491 shares were granted under the 2003 Executive Share Incentive Plan.

(iii) Convertible bond

US$ 243.3m 5.25% Guaranteed Convertible Bonds include options to convert into 78,859,870 14p Ordinary Shares.

(iv) Share premium account

The principal elements that make up the Company's share premium account arose as follows:

Group and Company

	Years arising	£m
Conversions to Ordinary Shares of 7% Convertible Redeemable Second Cumulative Preference Shares 1992/99 of £1 each	1989/90 and 1990/91	56.7
A placing of Ordinary Shares linked to the offer for Thames Television	1990/91	78.0
Issue of Ordinary Shares on exercise of subscription rights of warrants originally attached to 7⅜% bonds due 1992; and	1991/92	67.1
the transfer from other reserves in respect of amounts paid for the warrants exercised	1991/92	10.2
Issue of Ordinary Shares on conversion of Convertible Unsecured Loan Stock to fund the acquisition of Virgin Music Group	1992/93	508.4
Issue of Ordinary Shares on conversion of 5¾% Guaranteed Redeemable Preference Shares 2004 of THORN EMI Capital NV	1993/94	126.0
Share capital reorganisation (including issue of Redeemable Preference B Shares)	1997/98	(501.2)
Other issues of Ordinary Shares		102.1
Balance at 31 March 2005		447.3

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23. Reserves

	Group Capital redemption reserve £m	Group Other reserves £m	Group Profit and loss reserve £m	Company Capital redemption reserve £m	Company Other reserves £m	Company Profit and loss reserve £m
At 31 March 2004	495.8	255.7	(2,091.7)	495.8	402.1	1,706.8
Currency translation	–	–	(7.2)	–	–	–
Profit attributable to members of the Holding Company	–	–	56.3	–	–	69.2
Equity dividend	–	–	(63.2)	–	–	(63.2)
Revaluation movements*	–	(0.7)	–	–	–	–
Goodwill adjustments relating to subsidaries	–	–	(0.3)	–	–	–
Transfer between reserves	–	(4.2)	4.2	–	–	–
Purchase of shares by ESOP	–	(0.3)	–	–	(0.3)	–
ESOP charge for year	–	–	2.3	–	–	2.3
ESOP reserve movements	–	1.7	(1.7)	–	1.7	(1.7)
Transfer of realised reserves	–	–	–	–	(2.7)	2.7
At 31 March 2005	**495.8**	**252.2**	**(2,101.3)**	**495.8**	**400.8**	**1,716.1**

* Revaluation movements include £(0.7)m in respect of tangible fixed assets, taking into account the proportion attributable to minority shareholders.

In accordance with the exemption permitted by S230(3) of the Companies Act 1985, the profit and loss account of the Company is not separately presented. The profit attributable to shareholders, dealt with in the accounts of the Company, is £69.2m (2004: £94.4m).

Group reserves include £(9.4)m (2004: £(10.5)m) in respect of its share of post-acquisition retained losses of joint ventures and associated undertakings.

(i) Capital redemption reserve
The capital redemption reserve represents the reduction in distributable reserves for the amount paid to redeem preference B shares as part of the share capital reorganisation.

(ii) Other reserves
Other reserves of the Company contain a special reserve which reflects the share premium account reduction of July 1988 and unrealised profit on disposal of investments.

The EMI Group General Employee Benefit Trust (EBT) was established to hedge the future obligations of the Group in respect of shares awarded under the Senior Executive Incentive Plans. The Trustee of the EBT, EMI Group EBT (Guernsey) Ltd, purchases the Company's Ordinary Shares in the market with financing provided by the Company, as required, on the basis of regular reviews of the anticipated share liabilities of the Group. The EBT has, since December 1998, waived any entitlement to the receipt of dividends in respect of all its holding of the Company's Ordinary Shares. The EBT's waivers may be revoked or varied at any time.

EBT Group and Company

	Shares held in trust No.	Nominal value £m	Cost £m
At 31 March 2004	4,082,771	0.6	18.0
Shares purchased	142,721	–	0.3
Shares vested	(384,977)	(0.1)	(1.7)
At 31 March 2005	**3,840,515**	**0.5**	**16.6**

At 31 March 2005, the outstanding loan by the Company to the EBT to finance the purchase of Ordinary Shares was £16.9m (2004: £18.3m). The market value at 31 March 2005 of the Ordinary Shares held in the EBT, which are listed in the UK, was £9.1m (2004: £11.3m). All shares held in the EBT are either under option to employees or conditionally gifted to them.

(iii) Profit and loss reserve
The Group profit and loss reserve includes £1,265.6m (2004: £1,265.3m) in respect of goodwill previously written off.

24. Minority interests (equity)

Group

	2005 £m	2004 £m
Toshiba-EMI Ltd (Japan)	44.3	63.5
Other	4.0	4.1
Total	48.3	67.6

25. Financial commitments

Group

	2005 £m	2004 £m
Capital expenditure: Contracted	–	–

The Group has commitments, which are largely performance-related, to pay advances to artists and repertoire owners amounting to £388.4m at 31 March 2005 (2004: £382.9m).

Pursuant to a joint venture agreement with Mr Norman Cheng ('Project Typhoon'), the Group has agreed to establish and fund new businesses in the People's Republic of China, Hong Kong and South Korea. The Group has an option to buy, and Mr Cheng has an option to sell to the Group, his equity interest in the joint venture in 2009 at a price determined by reference to earnings over a three-year period. The Group can limit the price it pays to not more than US$100m.

Annual commitments under operating leases at 31 March were as follows:

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Land and buildings:				
Expiring in the first year	3.9	4.1	–	–
Expiring in the second to fifth years inclusive	6.6	7.3	–	–
Expiring after the fifth year	14.0	17.5	3.2	3.2
Total	24.5	28.9	3.2	3.2
Plant, equipment and vehicles:				
Expiring in the first year	0.8	1.0	–	–
Expiring in the second to fifth years inclusive	2.2	2.2	0.1	0.1
Expiring after the fifth year	0.8	–	–	–
Total	3.8	3.2	0.1	0.1

26. Contingent liabilities

The Group, along with other companies in the music and broadcast industries, has received requests from the New York State Attorney General for information regarding practices in connection with the promotion of records on New York state radio stations. The Group is co-operating fully with this inquiry. EMI has a long-standing, strict written policy prohibiting unlawful radio promotion practices, and that policy was reaffirmed internally in early 2004. The inquiry is ongoing and, while it is not possible to be certain as to the eventual outcome, EMI is not currently aware of any reason for believing that there will be a material financial impact on the Group. There are no other significant legal or arbitration proceedings, pending or threatened, against any member of the Group which, so far as the Directors are aware, are likely to result in a liability materially in excess of provisions in the financial statements.

Guarantees and other contingent liabilities total £33.3m (2004: £40.0m). Such liabilities relating to HMV Group plc total £20.7m (2004: £22.1m) and for the former Thorn rental business amount to £3.7m (2004: £9.4m); those in respect of Group companies total £8.9m (2004: £8.5m).

Following the demerger of the Thorn rental business in 1996, Group companies remained contingently liable in respect of guarantees given with regard to certain leases on properties occupied or previously occupied by the Thorn business though, as part of the demerger arrangements, Thorn Limited (formerly called Thorn plc) agreed to indemnify the Group against such liabilities. One of the Group companies so liable was sold to HMV Group plc as part of the 1998 sale and the Company agreed to indemnify HMV Group plc against any such liabilities. The current or former Thorn properties in respect of which the Group remained contingently liable number approximately 50 and the annual rental payments in respect of such properties total approximately £3.6m. Following the insolvency of Thorn High Street Properties Limited and certain other companies, claims have arisen against the Group in respect of many of the guaranteed leases. Such claims have been met by Thorn Limited pursuant to its agreement to indemnify the Group.

As part of the sale in 1998 to HMV Group plc (HMV Group) of the companies and assets comprising HMV, the Group entered into an indemnity deed with HMV Group relating, among other things, to guarantees given by the Group in respect of property leases of which approximately 75 (2004: 79) remain outstanding. Under the deed, HMV Group agreed to indemnify the Group against any payments made under those property leases and certain other guarantees and indemnities. The aggregate annual rental payments under guaranteed leases are approximately £20.7m (2004: £22.1m), although they are subject to adjustment both up and down under certain circumstances. The guaranteed leases have terms which expire in 10 to 21 years (2004: 22 years) and 17 of the leases expire in years beyond 2015. The indemnity deed remains in force in respect of lease guarantees, and HMV Group has secured those obligations pursuant to a security deed, the Company's rights under which rank second behind banks which provide senior credit facilities to HMV Group.

27. Pension arrangements

The Group operates a number of pension schemes throughout the world. The main scheme, which covers employees in the UK, is the EMI Group Pension Fund (the UK Fund). The UK Fund is of the defined benefit type and is open to all permanent employees over the age of 18 employed by the Company and certain subsidiaries in the UK. Benefits provided by the UK Fund are based on final pensionable pay. Pensions payable from the UK Fund are guaranteed to increase by 5% per annum or, if a lower rate, by the increase in the cost of living. Members contribute to the UK Fund at the rate of 4% of pensionable pay. With effect from 1 April 2004, the Company has contributed a further 21% of pensionable pay.

Aside from the UK, the Group has significant defined benefit schemes in Germany and Japan. With the exception of these schemes, the other defined benefit schemes operated on behalf of the Group are not material. With the exception of the UK fund, the currently agreed rates of contribution by the Group are nil for all significant defined benefit schemes.

Staff engaged in other countries are covered by local arrangements which, in the case of the Group schemes, are of the defined contribution type. The assets of the Group's pension schemes are held mainly in separate trustee-administered funds.

Employer contributions of £10.8m (2004: £12.6m) were charged to the Profit and loss account in the year. Other post-retirement benefit expenses of £0.1m (2004: £0.2m) were also charged to the Profit and loss account.

Provision is made in the financial statements for the benefits accruing to members of unfunded pension schemes in accordance with the advice of independent actuaries.

The latest available actuarial valuation of the UK Fund was made by a qualified actuary as at 31 March 2003 using the projected unit method. At that date and on the prudent funding basis used by the Trustee, the market value of the assets was sufficient to cover 91% of the value of the benefits that have accrued to the members, after allowing for assumed increases in earnings, on the actuarial assumptions used, treating the UK Fund as an ongoing entity.

Employer expense in respect of the UK Fund has been calculated in accordance with SSAP24. On the basis of actuarial advice and using a realistic basis for SSAP24 purposes which resulted in the market value of assets being sufficient to cover 109% of the value of the benefits, it is calculated that the profit and loss charge for the year ended 31 March 2005 is £nil (2004: £nil).

For SSAP24 purposes we have used the following assumptions:

	% per annum
Rate of investment return	6.80
Rate of pay increases	4.75
Rate of pension increases	2.75
Rate of price inflation	2.75

The most recent full actuarial valuations of the three significant defined benefit schemes were carried out as follows:
UK on 31 March 2003, Germany on 1 April 2003 and Japan on 31 October 2003.

The additional disclosures required by FRS17 are set out below.

The most recent full actuarial valuations have been updated to 31 March 2005 by qualified independent actuaries.

	United Kingdom 2005 %	United Kingdom 2004 %	United Kingdom 2003 %	Germany 2005 %	Germany 2004 %	Germany 2003 %	Japan 2005 %	Japan 2004 %	Japan 2003 %
Major assumptions									
Rate of general increase in salaries	**4.75**	4.75	4.25	**3.50**	3.50	3.50	**2.0-3.7**	2.0-3.7	2.4-5.0
Rate of increase to pensions in payment	**2.75**	2.75	2.25	**2.00**	2.00	2.00	**Nil**	Nil	Nil
Rate of increase to deferred pensions	**2.75**	2.75	2.25	**2.00**	2.00	2.00	**Nil**	Nil	Nil
Discount rate for scheme liabilities	**5.40**	5.50	5.50	**4.50**	4.75	5.00	**2.00**	2.00	1.25
Inflation	**2.75**	2.75	2.25	**2.00**	2.00	2.00	**Nil**	Nil	Nil

27. Pension arrangements (continued)

On full compliance with FRS17, on the basis of the above assumptions, the amounts that would have been charged to the Consolidated profit and loss account and Statement of total recognised gains and losses for the year ended 31 March 2005 are set out below:

	United Kingdom 2005 £m	United Kingdom 2004 £m	Germany 2005 £m	Germany 2004 £m	Japan 2005 £m	Japan 2004 £m
Operating profit						
Current service cost	**9.0**	7.0	**0.3**	0.3	**2.2**	2.4
Past service cost	**–**	–	**–**	–	**–**	–
Gain on settlements	**–**	(4.0)	**–**	–	**–**	–
Gain on curtailment	**–**	–	**–**	–	**–**	–
Total charge (credit) to operating profit	**9.0**	3.0	**0.3**	0.3	**2.2**	2.4
Finance income						
Expected return on scheme assets	**(54.0)**	(47.0)	**–**	–	**(1.1)**	(0.8)
Interest on scheme liabilities	**45.0**	43.0	**1.5**	1.5	**1.0**	0.7
Net (credit) charge to finance income	**(9.0)**	(4.0)	**1.5**	1.5	**(0.1)**	(0.1)
Total (credit) charge to profit and loss account before taxation	**–**	(1.0)	**1.8**	1.8	**2.1**	2.3
Statement of total recognised gains and losses						
Actual return less expected return on scheme assets	**(32.0)**	(109.0)	**–**	–	**0.7**	1.3
Experience (gains) and losses arising on the scheme liabilities	**16.0**	(27.0)	**(1.2)**	–	**(3.2)**	(2.0)
Changes in assumptions underlying the present value of the scheme liabilities	**12.0**	86.0	**1.3**	1.2	**–**	(3.9)
Actuarial (gains) and losses recognisable in the Statement of total recognised gains and losses	**(4.0)**	(50.0)	**0.1**	1.2	**(2.5)**	(4.6)

	United Kingdom 2005 %	United Kingdom 2004 %	Germany 2005 %	Germany 2004 %	Japan 2005 %	Japan 2004 %
Further disclosures						
Difference between the expected and actual return on scheme assets expressed as a percentage of the scheme assets	**3.9**	13.9	**–**	–	**0-(1.7)**	0-(2.9)
Experience gains and (losses) on scheme liabilities expressed as a percentage of the present value of the scheme liabilities	**(1.8)**	3.2	**3.8**	–	**10.0-(4.1)**	9.5-(79.7)
Total actuarial gains and (losses) recognised in the Statement of total recognised gains and losses, expressed as a percentage of the present value of the scheme liabilities	**0.5**	5.9	**(0.3)**	(3.7)	**10.0-(4.1)**	80.3-(4.3)

The market values of the assets of the three significant defined benefit schemes at 31 March 2005 were as follows:

	United Kingdom 2005 £m	United Kingdom 2004 £m	United Kingdom 2003 £m	Germany 2005 £m	Germany 2004 £m	Germany 2003 £m	Japan 2005 £m	Japan 2004 £m	Japan 2003 £m
Market value of assets*									
Equities	**484.0**	541.0	432.0	**–**	–	–	**–**	–	–
Bonds	**329.0**	235.0	252.0	**–**	–	–	**–**	–	–
Other	**17.0**	9.0	13.0	**0.5**	0.7	1.0	**42.1**	44.4	44.5
Total market value of assets	**830.0**	785.0	697.0	**0.5**	0.7	1.0	**42.1**	44.4	44.5
Present value of scheme liabilities	**(885.0)**	(850.0)	(813.0)	**(32.8)**	(31.4)	(31.1)	**(46.0)**	(52.5)	(59.0)
Deficit in the scheme	**(55.0)**	(65.0)	(116.0)	**(32.3)**	(30.7)	(30.1)	**(3.9)**	(8.1)	(14.5)
Pension liability before deferred tax	**(55.0)**	(65.0)	(116.0)	**(32.3)**	(30.7)	(30.1)	**(3.9)**	(8.1)	(14.5)
Deferred tax	**16.5**	19.5	34.8	**10.6**	11.7	11.4	**1.6**	3.4	6.1
Amount provided to cover scheme deficit	**n/a**	n/a	n/a	**32.3**	30.4	30.7	**n/a**	(4.1)	(2.4)
Impact on reserves	**(38.5)**	(45.5)	(81.2)	**10.6**	11.4	12.0	**(2.3)**	(8.8)	(10.8)

* The expected long-term rate of return on the assets is as follows:

United Kingdom	6.7% (equities 8.0%, bonds 4.8%, other 3.8%) (2004: 7.0% (equities 8.1%, bonds 4.9%, other 3.8%), 2003: 7.0% (equities 8.4%, bonds 4.8%, other 3.8%))
Germany	4.0% (2004: 4.5%, 2003: 4.5%)
Japan	2.5% (2004: 2.5%, 2003: 1.75%)

Notes to the financial statements
continued

27. Pension arrangements (continued)

Movement in surplus (deficit) during year:

	United Kingdom 2005 £m	United Kingdom 2004 £m	Germany 2005 £m	Germany 2004 £m	Japan 2005 £m	Japan 2004 £m
(Deficit) surplus in scheme at beginning of year	(65.0)	(116.0)	(30.7)	(30.1)	(8.1)	(14.6)
Exchange adjustments	–	–	(1.1)	1.1	0.4	0.3
Current service cost	(9.0)	(7.0)	(0.3)	(0.3)	(2.2)	(2.4)
Past service cost	–	–	–	–	–	–
Gain on settlement	–	4.0	–	–	–	–
Gain on curtailment	–	–	–	–	–	–
Cash contributions	6.0	–	1.3	1.3	3.4	3.9
Other finance income (expense)	9.0	4.0	(1.5)	(1.5)	0.1	0.1
Actuarial gain (loss)	4.0	50.0	–	(1.2)	2.5	4.6
(Deficit) in scheme at end of year	(55.0)	(65.0)	(32.3)	(30.7)	(3.9)	(8.1)

28. Related party transactions

The Company has taken advantage of the exemption under FRS 8 – *Related Party Disclosures* not to disclose related party transactions between Group subsidiary undertakings. The Group had no material transactions with any other related parties during the year.

Five year summary

	2005 £m	2004 £m	2003 Restated £m	2002 Restated £m	2001 Restated £m
Results					
Turnover:					
Continuing operations	1,942.8	2,120.7	2,175.4	2,445.8	2,672.7
Operating profit:					
Continuing operations					
Group operating profit before exceptional items and amortisation	232.9	249.3	254.7	190.9	332.5
Share of joint venture operating profit (HMV Group plc – discontinued)	–	–	0.4	34.3	34.4
Share of associated undertakings' operating (losses) profits	1.1	(0.3)	0.2	(1.1)	(3.8)
Total operating profit before exceptional items and amortisation	234.0	249.0	255.3	224.1	363.1
Operating exceptional items	–	(138.3)	(21.1)	(242.4)	(42.9)
Amortisation of goodwill and music copyrights	(50.9)	(50.9)	(42.8)	(51.3)	(53.8)
	183.1	59.8	191.4	(69.6)	266.4
Non-operating exceptional items:					
(Losses) on businesses disposed of or terminated	–	(40.4)	(25.2)	–	–
Profits on disposal of fixed assets and investments	0.8	23.9	234.9	–	–
Profit (loss) before finance charges	183.9	43.3	401.1	(69.6)	266.4
Finance charges	(92.1)	(96.1)	(77.3)	(83.2)	(103.6)
(Loss) profit before taxation	91.8	(52.8)	323.8	(152.8)	162.8
Taxation	(31.2)	(19.7)	(83.2)	(38.2)	(70.9)
(Loss) profit after taxation	60.6	(72.5)	240.6	(191.0)	91.9
Minority interests	(4.3)	0.9	(6.4)	(8.5)	(12.7)
(Loss) profit attributable to members of the Holding Company	56.3	(71.6)	234.2	(199.5)	79.2
Operating assets					
Music copyrights	402.8	448.7	451.2	518.2	546.8
Goodwill	33.2	31.8	56.2	34.0	61.1
Property, plant, equipment and vehicles	183.1	202.7	289.4	277.3	306.8
Fixed asset investments	22.9	19.3	22.2	29.5	48.6
Stock and debtors, excluding taxation and interest	782.7	797.0	973.9	919.6	994.9
Creditors and provisions, excluding taxation, dividends and interest payable	(1,086.8)	(1,201.5)	(1,210.4)	(1,296.4)	(1,231.3)
Investment in HMV Group plc	–	–	–	(159.9)	(168.3)
Operating assets	337.9	298.0	582.5	322.3	558.6
Key statistics					
Net borrowings	829.5	748.7	859.8	1,057.9	992.8
Net cash inflow from operating activities	221.4	309.4	117.2	211.9	314.8
Capital expenditure:					
Fixed assets (continuing operations)	29.9	51.3	68.5	39.2	42.8
Earnings per Ordinary Share:					
Basic	7.2p	(9.1)p	29.3p	(25.5)p	10.1p
Adjusted diluted	13.0p	15.5p	15.7p	11.8p	21.9p
Dividends per Ordinary Share	8.0p	8.0p	8.0p	8.0p	16.0p
Return on sales	12.0%	11.8%	11.7%	7.8%	12.4%
Effective tax rate (before exceptional items and amortisation)	22.0%	19.9%	25.3%	30.0%	27.3%
Interest cover – excluding joint venture (HMV Group plc – discontinued)	3.0x	3.3x	3.9x	4.0x	5.2x
Dividend cover	1.6x	1.9x	2.0x	1.5x	1.4x

Since 1 April 2000, several new accounting standards have been adopted (FRS17 to FRS19, UITF17 (Revised) and UITF38) and, where appropriate, comparative results have been restated to reflect the resulting changes in accounting policies and presentation of information.

Investor information

Financial calendar
Results announcements
Interim to 30 September 2005: 16 November 2005*
Final to 31 March 2006: 23 May 2006*

AGMs and Reports
2005 Annual General Meeting: 14 July 2005
2005 Interim Report: 25 November 2005*
2006 Annual Report: 9 June 2006*
2006 Annual General Meeting: 13 July 2006*

Dividend payment dates
2005 final: payable on 7 October 2005 to shareholders on the register of members at the close of business on 9 September 2005
2006 interim: payable on 3 April 2006* to shareholders on the register of members at the close of business on 10 March 2006*

* Proposed dates

Lloyds TSB Registrars
Questions about shareholdings, or changes of address or any other particulars, should be sent to: *Lloyds TSB Registrars, Shareholder Services, The Causeway, Worthing, West Sussex BN99 6DA, UK.* A helpline, available at local call rates in the UK only, operates during normal office hours on *0870 600 3984*. Shareholders outside the UK should call *+44 121 415 7060.*

www.shareview.co.uk
Lloyds TSB Registrars have a website at: *www.shareview.co.uk* where shareholders can view information about their shareholdings, as well as find information on how to register a change of name and what to do if a share certificate is lost. There are also facilities to download change of address, dividend mandate and stock transfer forms.

Multiple accounts
If shareholders receive multiple copies of the Group's Annual or Interim Reports, due to differing name and address details, they should write to Lloyds TSB Registrars requesting that their accounts be amalgamated.

Payment of dividends to UK bank or building society accounts
Shareholders who wish to have their dividends paid directly into their UK bank or building society account should request a dividend mandate form from Lloyds TSB Registrars or download the form from *www.shareview.co.uk.* An annual tax voucher will be sent to the shareholder's registered address at the time of the interim dividend payment in March or April each year. The voucher will list all of the dividends paid during the tax year. A tax voucher in respect of the final dividend paid on 1 October 2004 and the interim dividend paid on 1 April 2005 was sent to shareholders in April 2005.

Payment of dividends to overseas shareholders
Arrangements can be made for shareholders in a range of countries outside the UK to have their dividends paid directly into their bank account in their local currency. To find out if such a service can be made available to you, please contact Lloyds TSB Registrars on *+44 121 415 7060.*

Share dealing service [#]
A telephone and internet dealing service has been arranged through Lloyds TSB Registrars which provides a simple way for UK-resident shareholders to buy or sell EMI Group plc shares. Commission is 0.5% with a minimum charge of £20 for telephone dealing and £17.50 for internet dealing. For telephone dealing call *0870 850 0852* between 8.30am and 4.30pm, Monday to Friday, and for internet dealing log on to *www.shareview.co.uk/dealing.* You will need your shareholder reference number shown on your share certificate.

ShareGift
If you have a small number of EMI Group plc shares, with a value that makes it uneconomic to sell them, you may donate the shares to charity through the ShareGift scheme operated by The Orr Mackintosh Foundation (registered charity 1052686). Further information on ShareGift can be obtained from their website at *www.sharegift.org* or by calling *020 7337 0501.*

Individual Savings Accounts (ISA) [#]
Lloyds TSB Bank plc can provide a single company ISA for EMI Group plc Ordinary Shares. Details of this ISA, which is only available to UK-resident shareholders, may be obtained from Lloyds TSB Registrars by writing to them at: *The Causeway, Worthing, West Sussex BN99 6UY,* or by calling their ISA helpline on *0870 24 24 244.*

Monthly Purchase Plan (MPP) [#]
Lloyds TSB Bank plc provides an MPP for EMI Group plc Ordinary Shares. Information about this MPP may be obtained by writing to: *The Administrators – Monthly Purchase Plans, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA, UK,* or by calling their MPP helpline on *0870 60 60 268.*

American Depositary Receipts (ADRs)
The Company's ADRs trade on the Over-the-Counter market, with one American Depositary Share (ADS) representing two EMI Group plc Ordinary Shares. JPMorgan Chase Bank, N.A. is the Depositary for the Company's ADSs. Enquiries should be directed to: *JPMorgan Service Center, PO Box 43013, Providence, RI 02940-3013, USA;* Tel: *1-800 428 4237* (toll-free in the USA) or *1-781 575 4328;*
Website: *www.adr.com*

£/US$ dividend conversion facility
This service enables the holders of Ordinary Shares who are resident in the US to receive their dividends in US Dollars rather than Sterling. Details of this facility may be obtained from: *DB Services Tennessee, Inc., PO Box 305050, Nashville, Tennessee 37230, USA;* Tel: *1-615 835 3100.*

UK capital gains tax information
The market value of the Ordinary Shares of EMI Group plc (then known as THORN EMI plc) held on 31 March 1982, as adjusted for subsequent capitalisation issues, was 408.15p per share.

The base cost of EMI Group plc Ordinary Shares acquired prior to the demerger of 19 August 1996 will need to be apportioned between EMI Group plc Ordinary Shares of 25p each and Thorn plc Ordinary Shares of 25p each in the proportion 78.8% to 21.2%.

The base cost of EMI Group plc Ordinary Shares of 25p each held prior to the share capital reorganisation of 21 July 1997 will then need to be apportioned between the new Ordinary Shares of 14p each and the former B Shares of 114.5p each in the proportion 89.4% to 10.6%.

Share price information
The market price of EMI Group plc's Ordinary Shares is available from the EMI Group website at the address shown under Website/general enquiries below. Within the UK, this price is also available on Ceefax and Teletext, or by calling the FT Cityline service on *0906 843 4214* or *0906 003 4214* (calls charged at 60p per minute).

Unsolicited mail
By law, the EMI Group plc share register has to be available for public viewing. If you wish to avoid receiving unsolicited mail from other organisations, please write to:
Mailing Preference Service, Freepost 22, London W1E 7EZ, or call *08457 034599* for an application form. You can also register online at: *www.mpsonline.org.uk*

Annual and Interim Reports
Copies of the Group's previous Annual and Interim Reports are available from the Corporate Communications Department at the address shown below in italics or, for 1997 onwards, on the EMI Group website at the address shown under Website/general enquiries below.

Social Responsibility Report and information
The Group's Social Responsibility Report for 2004 is available on the EMI Group website at the address shown under Website/general enquiries below. The printed version and further information on social responsibility matters may be obtained from the Corporate Communications Department at the address shown below in italics.

Website/general enquiries
The EMI Group website provides news and financial information about the Group, as well as its music and music publishing businesses, together with links to its music labels.

General enquiries may be addressed to the Corporate Communications Department at: *EMI Group plc, 27 Wrights Lane, London W8 5SW, UK;* Tel: *020 7795 7000.* Callers from outside the UK should call: *+44 20 7795 7000.* Website: *www.emigroup.com*

[#] The publication of the information in respect of the share dealing service, Individual Savings Accounts and the Monthly Purchase Plan has been approved, for the purposes of section 21(2)(b) of the Financial Services and Markets Act 2000, by Lloyds TSB Bank plc, part of the Lloyds TSB Group, which is regulated by the Financial Services Authority.

Analysis of Ordinary Shareholdings at 20 May 2005

Range	No. of holdings	%	Balance as at 20 May 2005	%
1 to 500	10,288	48.88	2,097,678	0.27
501 to 1,000	4,689	22.28	3,449,325	0.44
1,001 to 10,000	5,152	24.48	12,204,542	1.54
10,001 to 100,000	476	2.26	16,859,909	2.13
100,001 to 1,000,000	316	1.50	113,772,488	14.41
1,000,001 and over	126	0.60	641,320,095	81.21
Totals	21,047	100.00	789,704,037	100.00

Subject index

Principal references

Design
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The Colourhouse

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Harry Borden

This report is printed on Fineblade paper which is made using elemental chlorine free pulps from sustainably managed forests.

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Number 229231

EXHIBIT CO 0926

EMI Group plc
Annual Report 2003

VALUABLE CONTENT

EMI

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EMI Group Annual Report 2003

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Additional Information

The word 'content' doesn't do justice to the great music and songs that EMI's artists create.

But it does explain the business we are pursuing – finding, developing and supplying pure musical content of high, long-term quality.

The music industry is in a period of transition led by rapid technological change. It is difficult to predict precisely what the most successful models for selling music will be in the future. But one thing is certain: **quality content is the key to unlocking value** as those new models emerge.

EMI is working with all kinds of retail, distribution, hardware and software companies to help consumers and users buy our music in the ways they want to.

And we are working hard to protect our music from theft. Music has a value to the people who created it and own it. Stealing intellectual property is the same as stealing any other kind of property.

Content, and value for stakeholders, are EMI's focus in a world where more music is being consumed than ever before. We believe that is a unique opportunity.

There are more and more formats for playing music

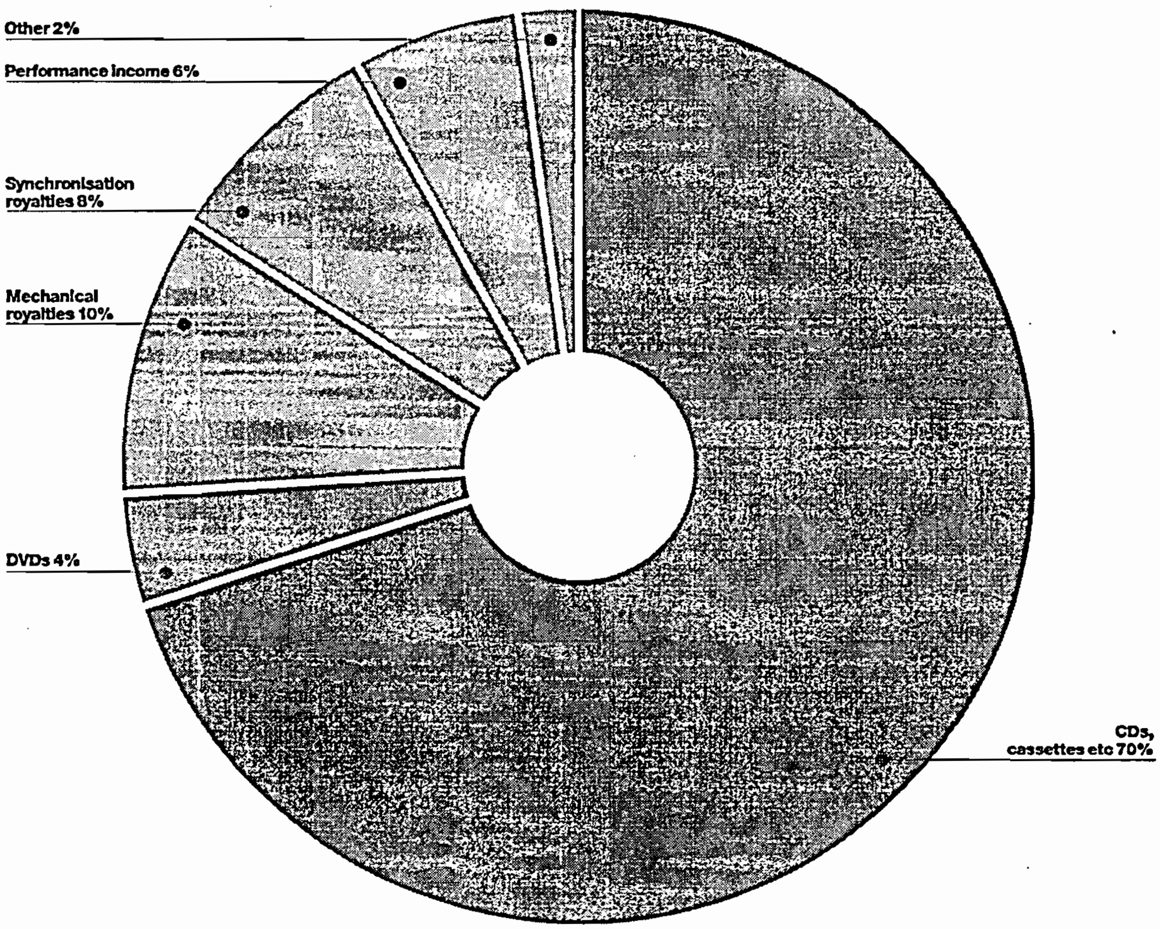
1985

Music Formats	Devices
Vinyl	Record Player
Cassette Tape	Tape Deck
CD	CD Player
Radio	Radio Tuner
TV Video	TV VCR

2003

Music Formats	Devices
Streaming	PC
Online Radio	PC
Digital Radio	Radio Tuner TV VCR
Vinyl	Record Player
Cassette Tape	Tape Deck
CD DVD Audio	CD Player DVD Player PC Games Devices
Radio	Radio Tuner
TV Video	TV VCR DVD Player
Downloads	CD Player DVD Player PC Games Devices
Ring Tones Ring Tunes MMS	MP3 Player Mobile Phones

Music generates revenues in many different ways



'We delivered the promised substantial improvement in profitability driven by the turnaround of EMI Recorded Music, another solid performance from EMI Music Publishing and tighter financial management across the group.'

Financial Summary

	Year ended 31 March 2003 £m	Year ended 31 March 2002 £m
Group turnover	**2,175.4**	2,445.8
EBITDA (i)	**297.0**	241.9
Group operating profit (EBITA) (ii)	**254.0**	190.9
Adjusted PBT (iii)	**177.3**	153.3
Profit (loss) before taxation	**319.3**	(152.8)
Adjusted diluted earnings per share (iv)	**15.6p**	11.8p
Basic earnings per share	**29.3p**	(25.5)p
Dividends per share	**8.0p**	8.0p
Return on sales (v)	**11.7%**	7.8%
Interest cover (vi)	**3.9x**	4.0x

(i) EBITDA is Group operating profit before operating exceptional items, depreciation and amortisation of goodwill and music copyrights.
(ii) Group operating profit (EBITA) is before operating exceptional items and amortisation of goodwill and music copyrights.
(iii) Adjusted PBT is before both operating and non-operating exceptional items and amortisation of goodwill and music copyrights.
(iv) Adjusted diluted earnings per share is before both operating and non-operating exceptional items and amortisation of goodwill and music copyrights.
(v) Return on sales is defined as Group operating profit before operating exceptional items and amortisation of goodwill and music copyrights as a percentage of Group turnover.
(vi) Interest cover is defined as the number of times EBITDA is greater than Group finance charges.

Eric Nicoli
Chairman, EMI Group

The year ended 31 March 2003 was one of remarkable progress and achievement for EMI Group, all the more so in a context of the global recorded music market declining by almost 9%. This market movement was markedly worse than we, and others in the industry, anticipated at the start of the year and demanded a swift and robust response from all parts of EMI's business.

We delivered the promised substantial improvement in profitability driven by the turnaround of EMI Recorded Music, another solid performance from EMI Music Publishing and tighter financial management across the group. Furthermore, we have invested time and resources in strengthening our culture and management capabilities to equip our businesses to compete more effectively in tough market conditions and a rapidly changing environment. These are the results of a company now being managed in a very different way from the past.

EMI Group
For the group as a whole, operating profit (EBITA) in the year improved by 33.1% to £254.0m on sales 11.1% lower at £2,175.4m. Exchange rate movements had a significant adverse impact; at constant currency, operating profit was up 34.8% while sales declined by 8.4%, broadly in line with the market.

Profit before tax, amortisation and exceptional items improved by 15.7% to £177.3m. When adjusted for currency and the year on year impact of the sale of our stake in HMV Group, the underlying improvement was 40.3%.

Under Roger Faxon's stewardship, EMI Group's balance sheet was completely restructured with the effect of more than doubling the average maturity of our debt. We converted our passive interest in HMV, Viva Media and other non-core assets into active investment in our core business and, during the course of the year, we reduced our net debt position by close to £200m leaving year-end net debt at £859.8m, its lowest level for four years.

Our tax rate for the year was somewhat lower than in previous years at 25%, mainly as a result of the improved North American profitability and a more favourable business mix overall.

Net profit after tax and minority interests improved by £429.2m to £229.7m compared with the previous year's loss of £199.5m. The resulting improvement in adjusted diluted earnings per share was 32.2%, to 15.6p per share.

The Board is recommending a final dividend of 6.0p per share, giving a full-year dividend of 8.0p per share, thus maintaining the previous year's level and improving dividend cover to close to two times.

Recorded Music
In EMI Recorded Music, Alain Levy and David Munns have driven the implementation of their far-reaching restructuring and reorientation plan with the objective of changing completely the way we work.

The strength and professionalism of the management team at all levels is, I believe, world class. The focus is now on sustainable, profitable sales, and on finding, developing and effectively marketing artists who will have long-term, successful careers.

Sales in Recorded Music fell 12.6% to £1,774.2m as the result of a combination of factors including macro-economic effects in some regions, a growing impact of music piracy in all its forms and the disruptive impact of our restructuring activities, some of which took longer than originally planned.

Our focus on generating profitable sales – rather than market share at any cost – together with full delivery of the projected cost savings and efficiency improvements from restructuring, resulted in an increase in operating profit (EBITA) of 81% to £150.5m. Our performance in North America was particularly pleasing as we saw margin improve by over 12 percentage points. The UK business had another year of excellent progress and in South East Asia we moved into profit for the first time in a number of years.

Music Publishing
EMI Music Publishing, under Martin Bandier's leadership, is, and has been for many years, demonstrably the best in the industry. While not immune to the effects of a declining recorded music market from which over 50% of its revenues derive, this business has, once again, shown great resilience and has managed to maintain overall sales and profitability by developing and exploiting other revenue streams.

'We have demonstrated that we have the resilience and flexibility to operate effectively and profitably in a range of market outcomes.'

Due entirely to currency movements, sales in the year fell marginally from £416.4m to £401.2m and operating profit (EBITA) was 4% lower at £103.5m. At constant currency, sales were flat and operating profit was down by just 0.5%.

Change

The extensive and challenging change programme of the past year was designed to put the group on a much sounder financial footing and to allow us to be more flexible and responsive in the tough competitive conditions that we expect to prevail in the future. That objective has been achieved.

The scale of the changes implemented over the course of the year was massive and their impact was often uncomfortable. The improvement in the business could not have been achieved without the extraordinarily hard work and dedication of my colleagues across the world. I am proud of them and the way they have embraced the need for a different way of operating.

We have also seen change in our Board membership. In May, Michael Jackson stepped down after only two and a half years as the consequence of a change of ownership of his employer resulting in a conflict of interest. In July, Hugh Jenkins retired after seven years of distinguished service and I thank both Michael and Hugh for their support and wise counsel. In September, Peter Georgescu joined, bringing a wealth of valuable media, advertising, consumer marketing and general management experience to bear on our strategic deliberations. Since the year end, we have been joined by David Londoner, a renowned former securities analyst with extensive knowledge of the global media and entertainment industry and the North American investment community.

The Future

Content is at the core of EMI – developing and supplying pure music content of the highest quality. We are committed to providing consumers with the music they want, in the format they want, at a value they find compelling and we are working with a vast range retailers, distributors, hardware and software manufacturers to make that vision a reality. At the same time, EMI is at the vanguard of industry efforts to protect our content from theft. Music is valuable to the people who use it and to those who create it and own it. Stealing music is the same as stealing any other kind of property and we will do everything within our power to prevent it.

In a world in which more music is being consumed than ever before, at EMI, with our extremely deep and rich music content bank, we have a unique opportunity to develop new revenue streams.

The weakness in the recorded music market is not yet over but we will be unrelenting in our efforts to attack the root causes of decline and to find ways to grow our business.

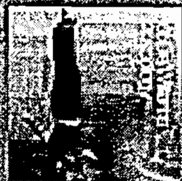
In the year ahead, while the market remains volatile and difficult to predict, we expect it to decline further but, probably, at a slower rate than last year. We have demonstrated that we have the resilience and flexibility to operate effectively and profitably in a range of market outcomes and we aim to make further progress in every part of our group.

Eric Nicoli
Chairman

Norah Jones

EMI Recorded Music Top 20 Albums 2002–03

1 **Norah Jones**
Come Away With Me
11.8m



2 **Robbie Williams**
Escapology
5.8m

3 **Coldplay**
A Rush Of Blood To The Head
5.6m

4 **Rolling Stones**
Forty Licks
5.5m

5 **Utada Hikaru**
Deep River
4.2m

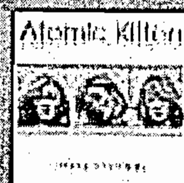
6 **Herbert Grönemeyer**
Mensch
3.0m

7 **Blue**
One Love
2.5m

8 **Renaud**
Boucan d'enfer
1.8m

9 **Queen**
Queen Platinum Collection
1.7m

10 **Kylie Minogue**
Fever
1.6m

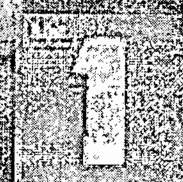


11 **Atomic Kitten**
Feels So Good
1.6m

12 **Paul McCartney**
Back In the U.S. Live 2002
1.4m

13 **Snoop Dogg**
Paid Tha Cost To Be Da Bo$$
1.3m

14 **David Bowie**
Best of Bowie
1.3m



15 **The Beatles**
1
1.2m

16 **Massive Attack**
100th Window
1.0m

17 **Moby**
18
1.0m

18 **George Harrison**
Brainwashed
1.0m

19 **Coldplay**
Parachutes
1.0m

20 **The Vines**
Highly Evolved
0.9m

Alain Levy
Chairman and CEO
EMI Recorded Music

The global music market is undergoing a shift in its traditional shape and structure that has far-reaching implications for the way the industry has been accustomed to do business.

EMI Recorded Music entered the financial year with a commitment to changing fundamentally the way it operates. This initially involved reducing overheads, including 1,900 jobs, to generate nearly £100m in annualised fixed cost savings. This was a necessary process in order to create a structure that is both scaled to the new size of the market and flexible enough to take advantage of new opportunities that arise or are developed.

This restructuring has contributed to an operating profit (EBITA) uplift of over 80%, while at the same time having some short-term negative impact on revenues. In a year where the market fell 8.7%, EMI Recorded Music's turnover decreased 12.6% (10.2% in constant currency terms) to £1,774.2m. This decrease is partly the result of general market forces, most notably a significant increase in both digital and physical piracy. It was also driven by the disruption to day-to-day operations caused by the extensive restructuring process, particularly in Continental Europe and at Virgin America, as well as by the lower than expected performance of some local repertoire releases in Japan.

While we recognise that, in the long term, sales growth is an important objective, the year ended 31 March 2003 was clearly one during which we repositioned EMI Recorded Music on profitable foundations, and its performance did improve markedly. Operating profit increased 81% to £150.5m (£150.1m at constant currency), more than doubling operating margins to 8.5% compared with 4.1% last year.

This margin increase is not simply the result of cutting the cost base. In the year just ended, we pursued an aggressive policy of refocusing Recorded Music on its core business by streamlining the artist roster and exiting unprofitable operations and costly joint ventures.

The improvement also demonstrates the importance of concentrating on profitable, sustainable sales from artists with long-term potential. EMI had considerable global success with such artists, including the phenomenal debut album from Norah Jones, *Come Away With Me*, which has now sold 13m copies; the excellent second album *A Rush Of Blood To The Head* from UK band Coldplay and Robbie Williams' *Escapology*, both now nearing 6m copies; and the definitive greatest hits from the Rolling Stones, now over 5m copies of a double album. We also had excellent regional successes from artists such as Utada Hikaru, Renaud and Herbert Grönemeyer, whose album *Mensch* sold over 3m copies to become the highest selling German language album ever.

‘In the year under review, EMI Recorded Music began building the foundations for the music company it aims to become. There is more interest in, and consumption of, music than ever before, and there is a tremendous opportunity ahead to legitimise and capitalise on this demand.’

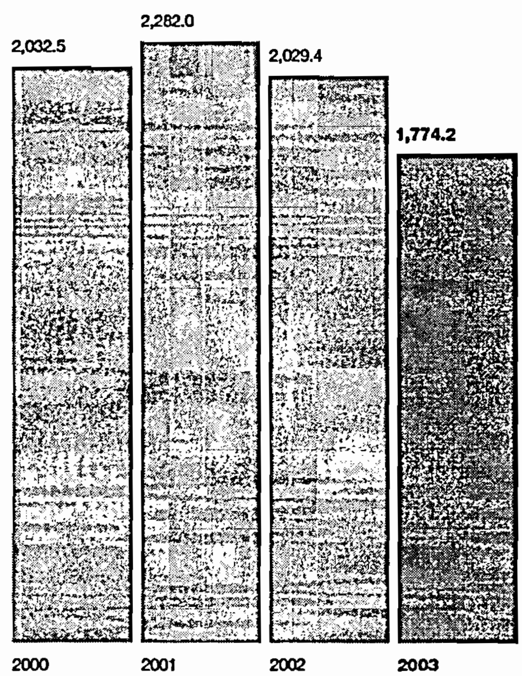
45th Grammy Award Winners

Record of the year
Norah Jones
Don't Know Why
Album of the year
Norah Jones
Come Away With Me
Song of the year
Norah Jones
Don't Know Why
Best new artist
Norah Jones
Best female pop vocal
Norah Jones
Come Away With Me
Best pop vocal album
Norah Jones
Come Away With Me

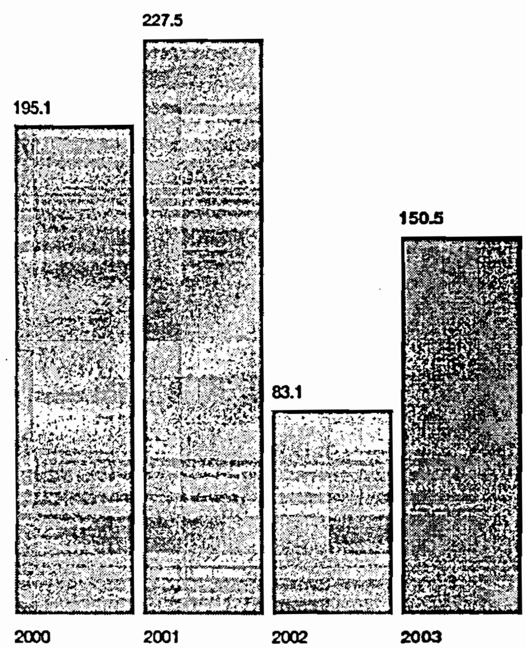
Best rock performance by a duo or group with vocal
Coldplay
In My Place
Best alternative music album
Coldplay
A Rush Of Blood To The Head
Best engineered album, non-classical
Come Away With Me
Producer of the year, non-classical
Arif Mardin
Come Away With Me
Best dance recording
Dirty Vegas
Days Go By

Best traditional tropical Latin album
Bebo Valdes with Israel 'Cachao' Lopez & Carlos 'Patato' Valdes
El Arte del Sabor
Best soul gospel album
The Blind Boys of Alabama
Higher Ground
Best new age album
Eric Tingstad & Nancy Rumbel
Acoustic Garden

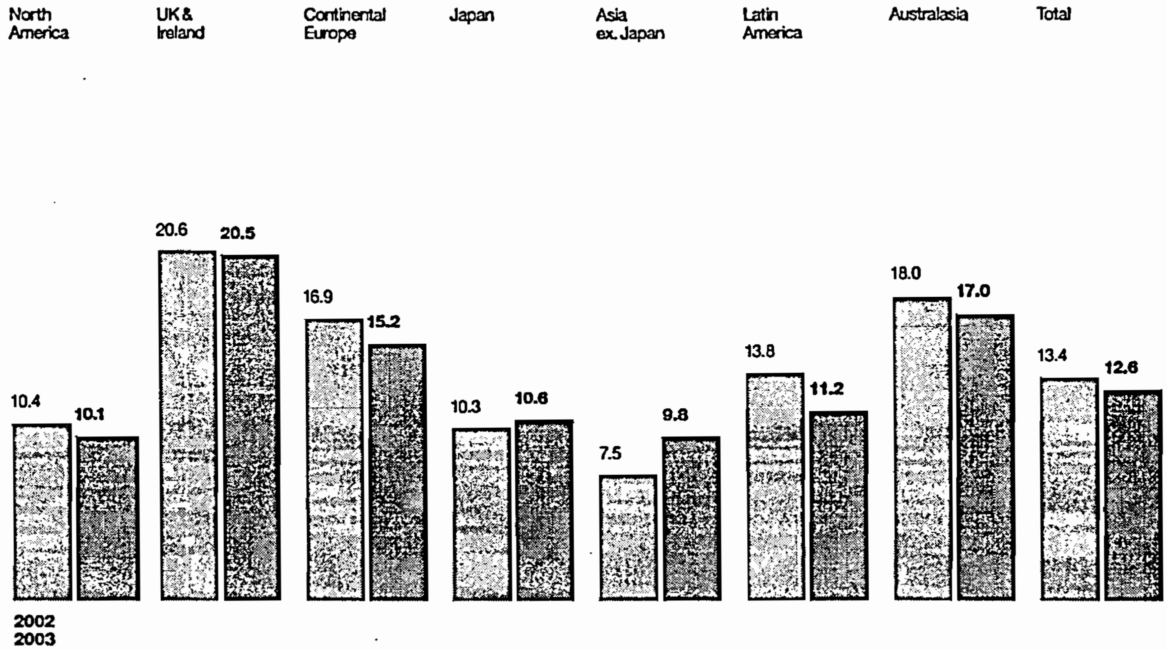
Recorded Music Turnover
(£m)



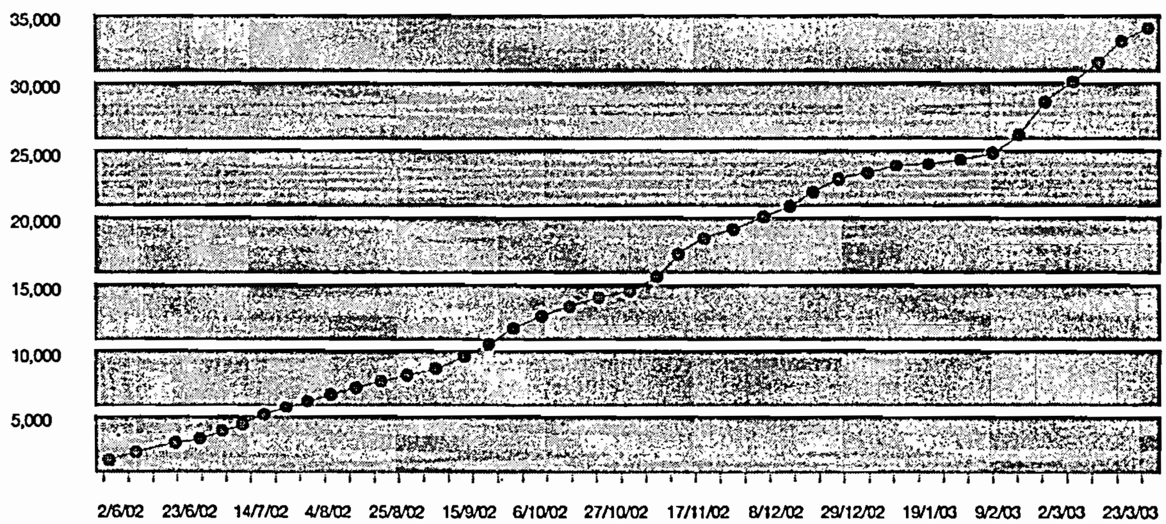
Recorded Music Operating Profit
(£m)



EMI Market Share
By region – value (%)



Digital Music Service Subscriber Growth



Based on information from one US-based service

North America
Looking at our performance on a regional basis, the turnaround in our North American business was encouraging. After five consecutive years of losses, the new management team has delivered a return to profitability and a margin increase of more than 12 percentage points. While market share fell significantly in the first half, there was a gradual increase over the second half, with Norah Jones' eight Grammy awards in February a particular highlight.

The changes made at Capitol have delivered initial successes from artists including debut albums from The Vines and, more recently, Lisa Marie Presley. Virgin is now beginning to rebuild its roster and EMI is increasingly confident of generating US-signed artists for worldwide exploitation, while recognising that progress will be gradual in this very competitive market.

UK
The UK had yet another impressive year and continues to be a major source of repertoire both for local and international exploitation, as well as a standard of excellence in extracting value from catalogue.

Continental Europe
Continental Europe underwent the most comprehensive restructuring of all territories that took longer than anticipated to complete. Nonetheless, it remains a highly profitable business, and had significant success with a number of local repertoire releases, including albums from Renaud in France and Herbert Grönemeyer in Germany. With the restructuring now complete, we expect to make progress at all levels.

Japan
Japan had some important successes, notably with Utada Hikaru's third album *Deep River*, but nonetheless turned in a somewhat disappointing result as certain significant local repertoire releases, particularly in the fourth quarter, did not perform as well as expected. Despite tough market conditions, we remain confident in the quality of our team in Japan and their ability to deliver future successes.

Asia
Asia, outside of Japan, was another great success, turning in its first profit in a number of years. EMI is pursuing a very aggressive strategy to improve both market share and profit in this region. This includes a significant push into China, illustrated by substantial investment in local repertoire, which offers considerable potential despite severe piracy.

Latin America
Results in Latin America were mixed. There were significant setbacks in Mexico resulting from piracy and poor local management performance. This management is in the process of being replaced. EMI also closed its Venezuelan operations because of the severe economic problems in that country. At the same time, however, the region's most important market, Brazil, returned to profitability and there was considerable progress in the growing US Latin market.

'In recent months we have started to see a shift in the attitudes of governments as to the seriousness of the piracy situation and are starting to witness their willingness to confront the problem.'

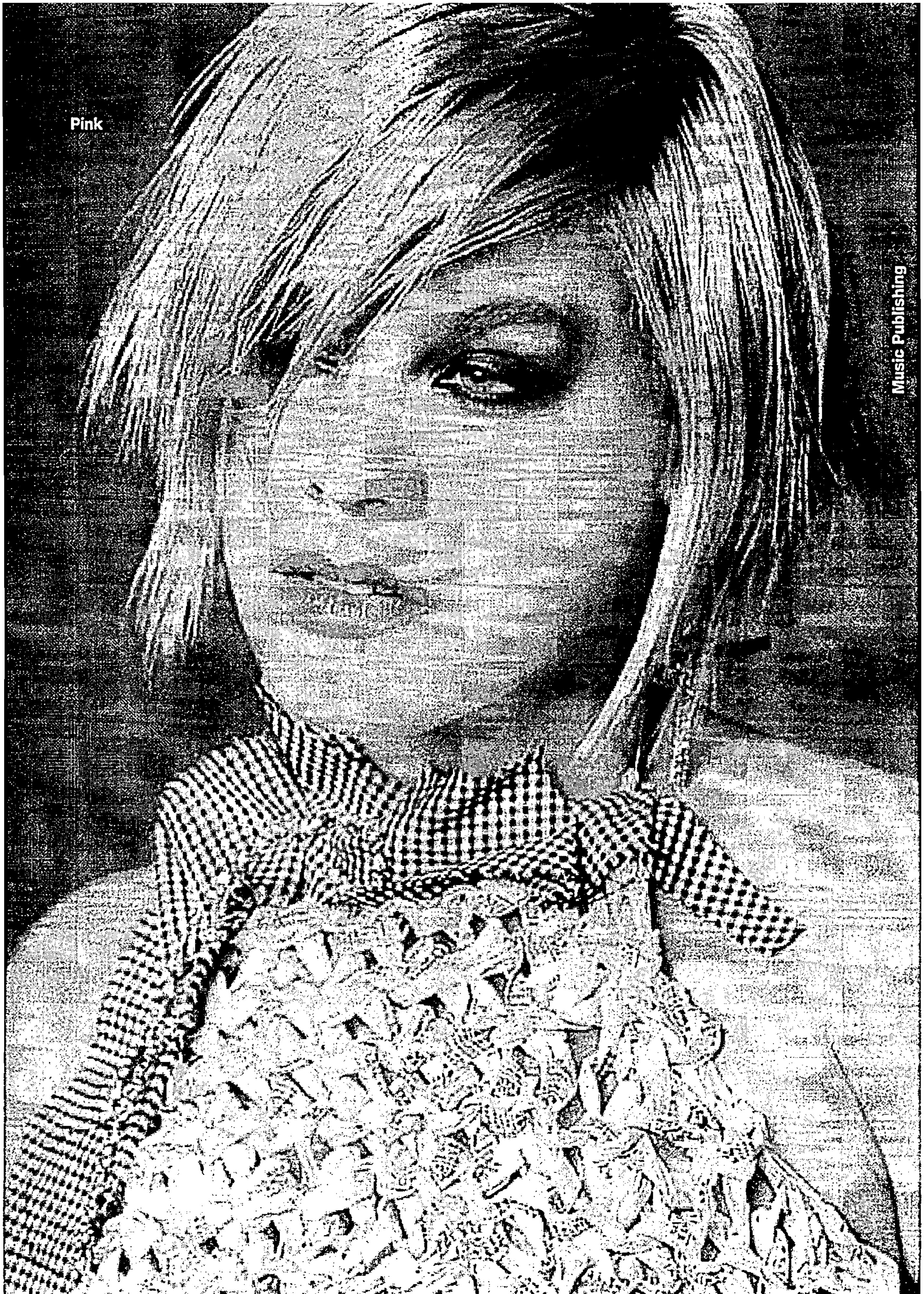
Piracy
Beyond improving immediate profitability, containing piracy has become another major priority for EMI. During the year, EMI Recorded Music created a global anti-piracy team. Overall we have allocated substantial management time to lobbying governments to enact and enforce stronger legal penalties, and to identifying technologies and establishing procedures that protect our music. The group is determined to contain the sales erosion caused by physical counterfeiting, illegal file sharing and CD burning.

In recent months we have started to see a shift in the attitudes of governments as to the seriousness of the situation and are starting to witness their willingness to confront the problem.

Piracy containment is one important part of the new environment. It is, however, clear that consumers want to access music legally via the net and we are making considerable efforts and progress in turning this into reality. EMI's catalogue is very widely available in digital delivery services and the group has taken a leadership position in offering more of our content on the net. EMI is also actively pursuing opportunities offered by the digital world such as ring tunes and video distribution as well as gaining further insight into music consumers' behaviour.

Outlook
In the year under review, EMI Recorded Music began building the foundations for the music company it aims to become, operating under principles that focus on profitable sales growth and long-term artist development. There is more interest in, and consumption of, music than ever before, and there is a tremendous opportunity ahead to legitimise and capitalise on this demand.

Looking ahead to the current financial year, the markets are likely to remain challenging. However, we are confident of being able to face the issues, both in terms of supplying high-quality music, for which there is growing demand, and in maximising the revenue EMI Recorded Music generates from this music. On this basis, we expect to improve market share.


Pink
Music Publishing

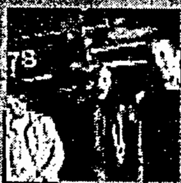
EMI Music Publishing Top 20 Writers 2002–03


Anders Bagge


Sting


Queen


Sean Paul


Stargate


Alan Jackson


Clif Magness


White Stripes


Ms Dynamite


Guy Chambers


Doves


Pink


Blur


Enrique Iglesias


Good Charlotte


Pharrell Williams


Norah Jones


Nirvana


Matchbox Twenty


Sum 41

Martin Bandier
Chairman and CEO
EMI Music Publishing

EMI Music Publishing delivered another solid performance, despite the challenges presented by the downturn in the global recorded music market. For the year as a whole, operating profit (EBITA) fell from £107.8m in the previous year to £103.5m in the year ended 31 March 2003. This decrease resulted from currency movements, in particular weakness in the US dollar, and from a slight increase in corporate charges. On a constant currency basis and before central cost allocation, Music Publishing operating profit (EBITA) increased marginally, from £110.6m in 2002 to £111.0m in the year ended 31 March 2003.

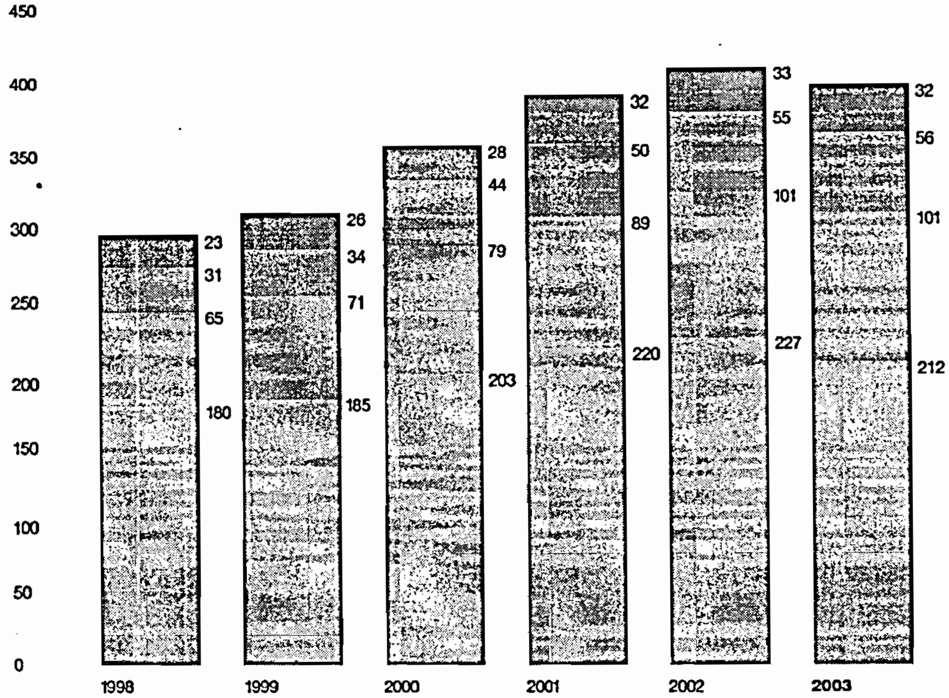
The turnover generating this margin also remained broadly flat on a constant currency basis, at £416.6m compared with £416.4m in the previous year. Taking into account currency effects, turnover fell 3.7% to £401.2m.

This resilient performance reflects the strength of EMI Music Publishing's ability to develop new revenue sources and additional uses of music that reduce its reliance on the recorded music industry. Mechanical royalties, primarily derived from the sale of music in CD format, now comprise only 53% of our total turnover, down from 55% in the previous year, and 60% in 1998.

Mechanical Royalties
The 8.7% decline in the recorded music industry in the year ended 31 March 2003 did have an impact on mechanical royalties. Nevertheless, with a fall of only 3.5% at constant currency in mechanicals, we outperformed the global market, demonstrating the continued success of our strategy of signing leading writers across all genres, together with our ability to generate repeated uses through re-recordings of songs in our existing catalogues, in particular the great songs from the Motown era included in the Jobete catalogue.

Performance Income
Performance income, derived from the public performance of songs in EMI's catalogue, comprises 25% of EMI Music Publishing's turnover and grew 3.3% at constant currency, representing the fifth consecutive year that this revenue stream has increased. Driving this growth is our strong chart share, together with the increase in media outlets, the resolution of outstanding cable rate disputes in the US, which increased revenues by bringing cable royalty rates in line with other media, and increased efficiencies at the local societies in the collection of publishing revenues.

Music Publishing
Revenue Sources
(£m)



Mechanical Performance Synchronisation Other

Synchronisation Royalties

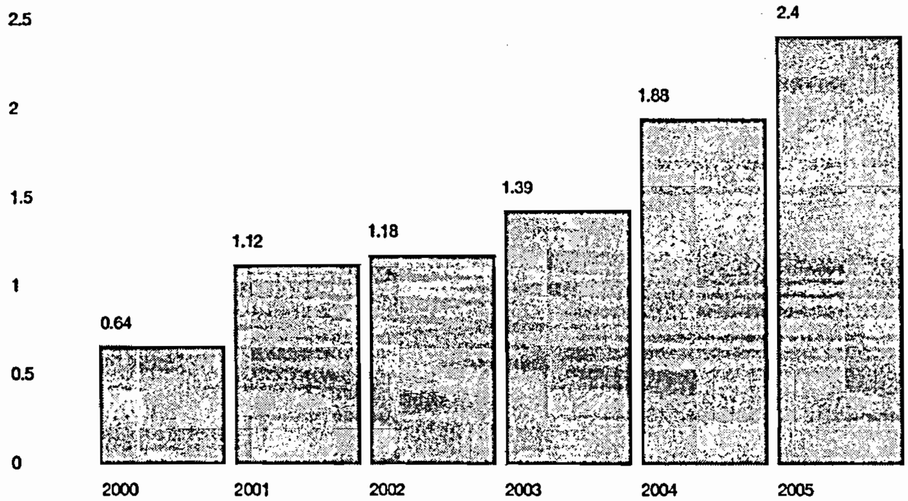
Synchronisation royalties generate 14% of Music Publishing turnover, and also grew strongly, up 7.9% at constant currency. This substantial increase at a time when the global advertising market has been under pressure is a considerable success. It demonstrates the value in EMI's successful exploitation of its catalogue not only in commercials but also in films, TV programming and, increasingly, the video game market which uses music to enhance game play.

Key elements in driving its synchronisation revenues are Music Publishing's business-to-business website and Music Spa. The site has over 6,000 regular users worldwide who can search our catalogues to suit a variety of music needs. Since its relaunch in February, daily traffic has increased by over 70%. The Spa, housed in the company's New York office, is a creative atmosphere with the technical capabilities that allow advertisers and their agencies to work with EMI's Music Resources Group to sample and identify the music that best fits the product and message of a commercial campaign.

Songs from Music Publishing's catalogues are also featured in a variety of musicals, which EMI actively seeks to promote. Current shows include: *We Will Rock You*, based on the Queen catalogue; *Mamma Mia*, using the songs of Abba; and *Our House*, featuring the songs of Madness. In autumn 2003, a new musical featuring the music of EMI-signed writer Rod Stewart is expected to open in London's West End, and plans are underway for a Motown-based musical to be written and produced by Motown founder Berry Gordy.

Always On My Mind/Baby Love/Blue Moon/Bohemian Rhapsody/Can't Get You Out Of My Head/Every Breath You Take/Fame/Have Yourself A Merry Little Christmas/Hero/Imagine/It's Raining Men/James Bond Theme/Just Like A Pill/Lady Marmalade/Perfect Day/Pink Panther Theme/Rocky Theme/Stand By Your Man/Stop! In The Name Of Love/This Old Heart Of Mine/Where Did Our Love Go/

European Ring Tone Sales
(Euros bn)



Source: Durlacher Research

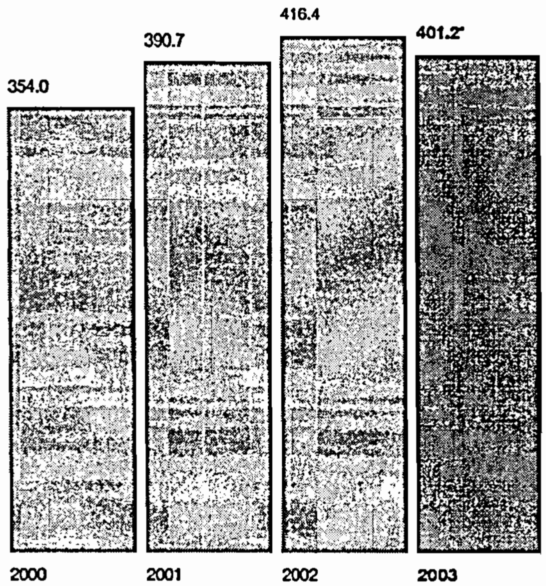
North America
In North America, turnover fell 1.5% as gains in synchronisation income were offset by falls in mechanicals, but again by less than the overall market decline. EMI Music Publishing was once again named Publisher of the Year by performance societies ASCAP and BMI and by *Billboard* magazine. EMI Music Publishing writers, artists and producers cumulatively earned 24 Grammys, one-third of which went to Norah Jones and her debut album *Come Away With Me*, which to date has sold 13m copies.

UK
In the UK, turnover grew 3.8%, reflecting an increase in both mechanical and performance income driven by our continued leadership position in the UK charts. EMI Music Publishing and its writers won numerous awards at every major UK award ceremony, including six Brits, five Ivor Novello Music Awards and *Music Week* named us Publisher of the Year for the eighth year in a row.

Continental Europe
Continental European performance was mixed. Certain markets, notably Germany and Italy, were impacted by steep local market declines in recorded music. France countered that trend as the recorded music market grew 3% year on year, while the Benelux countries also generated revenue gains.

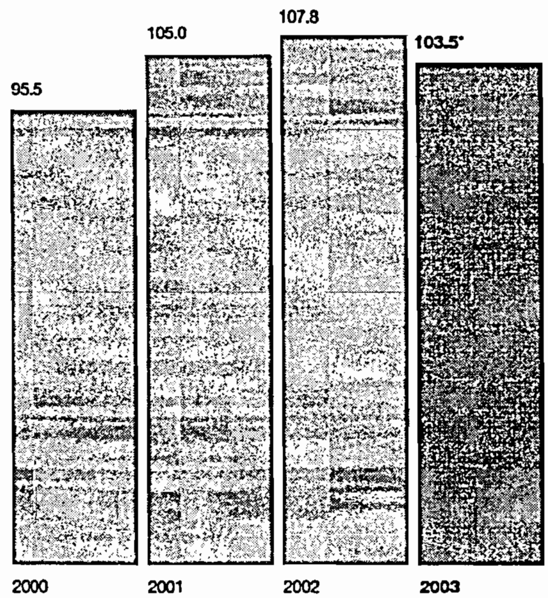
Japan
Japan had a very strong year, increasing sales by over 5% in large part because of the strong performance of Utada Hikaru's third album *Deep River*, which sold over 4m copies in Japan alone.

Music Publishing Turnover
(£m)



*2003 at constant currency £416.6m

Music Publishing Operating Profit
(£m)



*2003 at constant currency £107.3m

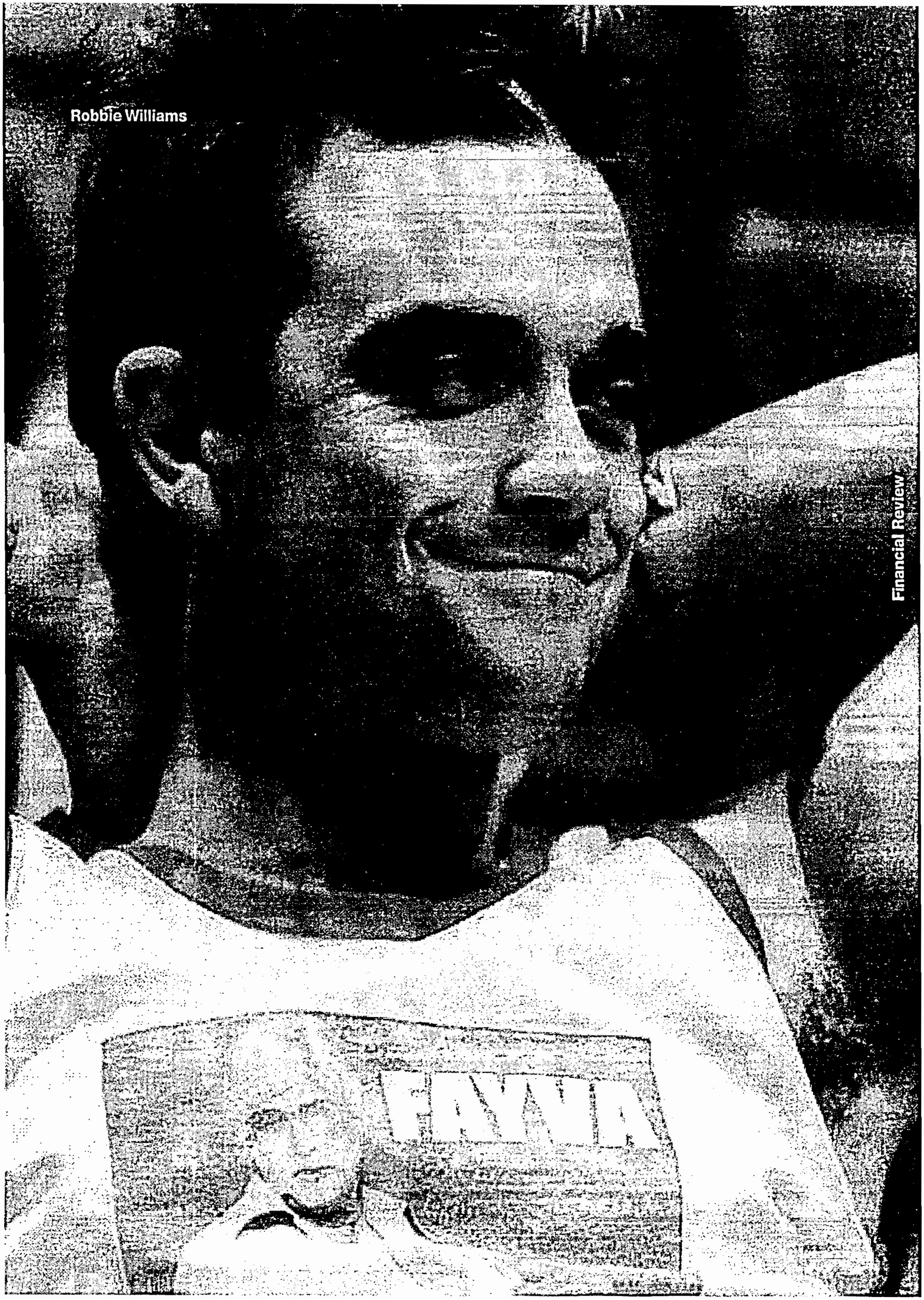
New Developments
Shortly after the end of the financial year, in April 2003, EMI acquired a further 30% of the Jobete catalogue from Berry Gordy for US$109.3m, bringing EMI's total share in Jobete to 80%. This gives EMI greater control over its superb array of Motown songs, together with the financial benefit of being able to consolidate it for tax purposes.

Successful writers contributing to this year included Norah Jones, Pink, Enrique Iglesias, Pharrell Williams, and White Stripes, and new signings included Dirty Vegas, Busted, Ms Dynamite and Sean Paul, to name a few.

New uses of Publishing's music contributed additional revenue streams to income this year including ring tones and video games, as mentioned above. The ring tone market has developed as cellular penetration has continued to grow and users look for ways to personalise their phones.

Outlook
For the current financial year, we expect to see further pressure on mechanical royalties in the face of a continued expected decline in the global recorded music market. Nevertheless, we expect to continue to exploit aggressively our impressive catalogue of songs, both current and classic, in the synchronisation market and develop new income streams, such as ring tones, video games, and on-line uses.

'EMI Music Publishing's resilient performance reflects the strength of its ability to develop new revenue sources and additional uses of music.'



Robbie Williams

Financial Review

Strength Across Genres


Chris Cagle


Jennifer Hanson


Keith Urban


Nitty Gritty Dirt Band


Trace Adkins


Sarah Brightman


Art Garfunkel


Vanessa Mae


Leif Ove Andsnes


Maria Callas


Lesley Garrett


Nigel Kennedy


Simon Rattle


ScoLoHoFo


Medeski Martin & Wood


Patricia Barber


Stacie Orrico


Smokie Norful


Cassandra Wilson


Steven Curtis Chapman

Roger Faxon
Chief Financial Officer EMI Group

The year ended 31 March 2003 was one of substantial challenge for EMI as its primary market fell for the third year in a row. However, it was also a year of unprecedented accomplishment.

The group implemented a comprehensive reorganisation of its Recorded Music division, reducing headcount by 1,900 and the ongoing fixed cost base by nearly £100m. Against a backdrop of lower sales, Recorded Music substantially improved its operating margins driving its underlying profits up 81% and, for the first time in five years, the US Recorded Music business generated a profit. Music Publishing yet again demonstrated its resilience in the face of exceedingly difficult market conditions. By continuing to diversify its income, it was able to hold firm its profits and margins.

The group also completed a sweeping balance sheet restructuring, more than doubling average debt maturity to five years, and converted passive interests in HMV, Viva Media and other assets into active investment in the core business. Joined with the improved operating performance and careful cash management, the sale of these assets resulted in a reduction in net debt of over £198m, reducing EMI's leverage to below three times EBITDA, down from 4.4 times just a year ago.

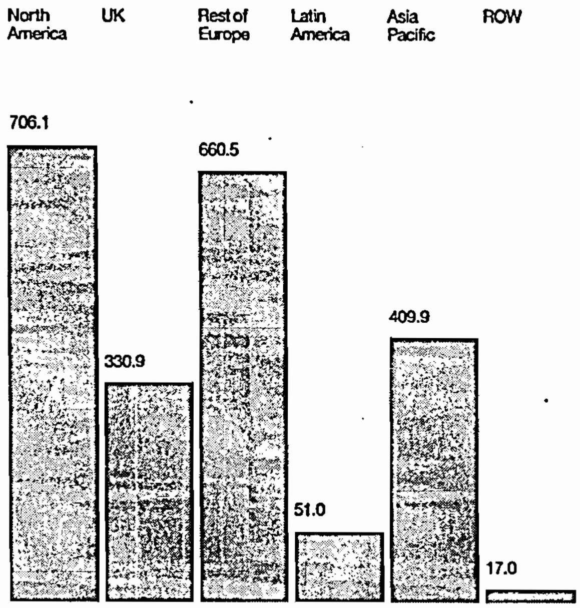
Group turnover fell by £270.4m (11.1%), including a decrease of £64.0m from exchange on translation. All regions had lower turnover in the year. After excluding currency effects, the decrease was entirely in EMI Recorded Music, reflecting both the global downturn in the recorded music market and EMI's focus on ensuring that sales are delivered profitably. At constant currency, EMI Music Publishing sales remained flat.

Group operating profit (EBITA) increased 33.1%, from £190.9m in 2002 to £254.0m in 2003, resulting from the impact of the cost savings implemented in EMI Recorded Music over the financial year, together with additional margin improvements in that business and a continued solid performance from EMI Music Publishing.

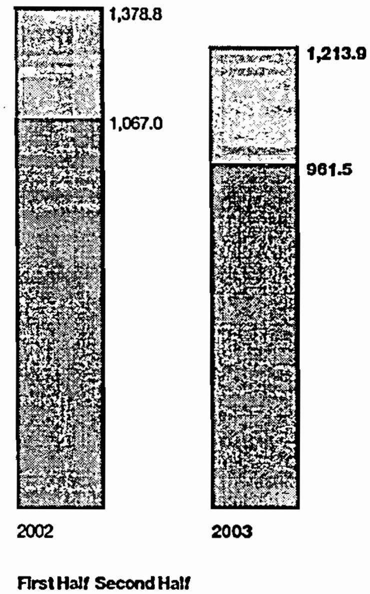
An explanation of trading performance is given in the Operating Reviews on pages 9 to 22.

Group turnover for the second half fell by £164.9m (12.0%) to £1,213.9m, of which decrease £36.1m was attributable to exchange on translation. Excluding the effects of currency, Recorded Music sales were down by £120.7m or 10.4%. On a similar basis Music Publishing turnover decreased by £8.1m, largely as the result of timing differences.

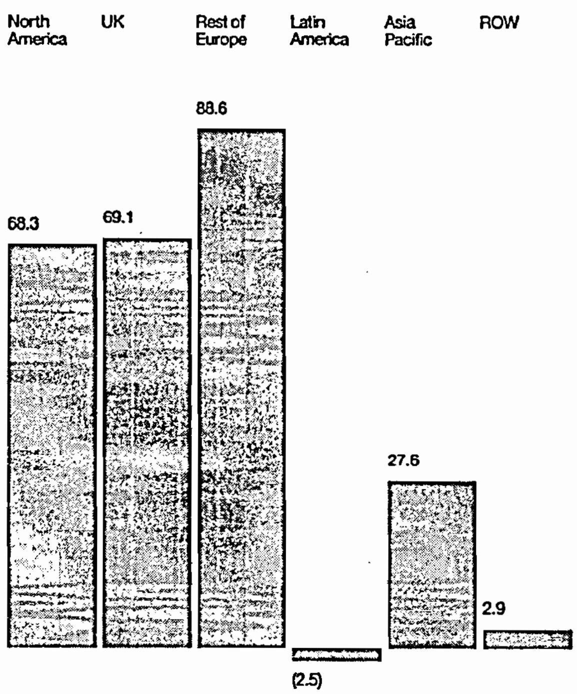
Group Turnover
By Origin
(£m)



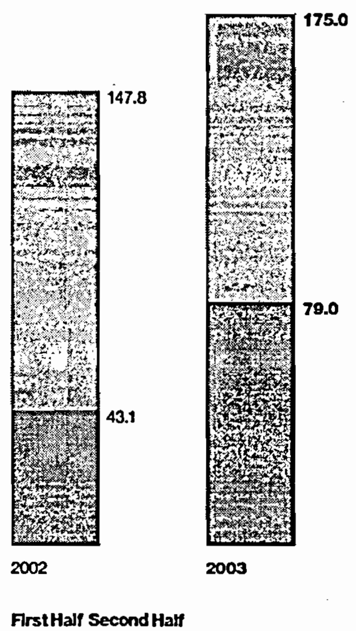
Group Turnover
First and Second Half Analysis
(£m)



Group Operating Profit
By Origin
(£m)



Group Operating Profit
First and Second Half Analysis
(£m)



Trading and Adjusted Profit Before Tax

	Turnover			Operating profit*		
	2003 £m	2002 £m	Change %	**2003 £m**	2002 £m	Change %
Recorded Music	**1,774.2**	2,029.4	(12.6)	**150.5**	83.1	81.1
Music Publishing	**401.2**	416.4	(3.7)	**103.5**	107.8	(4.0)
Group Total	**2,175.4**	2,445.8	(11.1)	**254.0**	190.9	33.1
Return on sales	**11.7%**	7.8%				

* Before operating exceptional items and amortisation of goodwill and music copyrights

Group operating profit for the second half was £27.2m higher than last year, at £175.0m. This included a loss of £1.8m from exchange on translation. Second-half Recorded Music profits were up 33.7% to £121.9m at constant exchange rates, reflecting the substantial turnaround in its North American business and continued strong results in the UK, partially offset by decreases in other regions, particularly Continental Europe. Timing differences resulted in Music Publishing operating profit falling 3.0% at constant exchange rates to £54.9m.

Following the exit in the previous year from loss-making Recorded Music satellite operations, operating profit in associates moved from a loss of £1.1m last year to a profit of £0.2m this year.

In May 2002, HMV Group plc listed on the London Stock Exchange, and EMI simultaneously reduced its stake to 14.5%. In November 2002, EMI sold this remaining stake. Therefore, the group no longer consolidates HMV's operating profit and interest charges, which last year were £44.6m and £20.7m, respectively. For the period up to flotation, EMI's share of HMV's operating profit was £0.4m, and of its finance charges, £1.2m.

Group finance charges of £76.1m were £15.7m higher than last year as the result of higher interest rates following the restructuring of debt into longer-term instruments, which more than offset the impact from the substantial reduction in overall debt levels. In February 2003, EMI crystallised a reduction in the long-term cost of its US bond by unwinding certain derivative positions. The interest charge on these bonds will in the future be offset by a proportion of the gain resulting from this action.

Adjusted profit before tax, amortisation and exceptional items (adjusted PBT) grew 15.7%, from £153.3m in 2002 to £177.3m in 2003.

Other Items Affecting Earnings

The group tax rate, before amortisation and exceptional items, fell to 25% from 30% last year. A major contributor to the reduction in the tax rate is the return to profitability of our US business, which has brought forward tax losses available for offset, and somewhat lower profits in Japan, the group's highest tax-paying territory.

Amortisation of copyrights acquired and goodwill on acquisition fell to £42.8m from £51.3m in the previous year, reflecting the write-down of investments in the year ended 31 March 2002 in connection with the Recorded Music restructuring, and exchange.

During the period, the group incurred a non-cash charge of £24.9m arising from the write-down of certain investments and other assets, including EMI Group shares held in the Employee Benefit Trust. This is reported as an operating exceptional cost.

This is in contrast to the year ended 31 March 2002, in which the group incurred an exceptional operating charge of £242.4m relating to restructuring and reorganisation costs, mainly within EMI Recorded Music. In that same period, HMV Group also incurred exceptional costs, of which EMI's share was £12.4m.

The group benefited from a non-operating exceptional profit of £209.7m, largely arising from the disposal of its stakes in HMV and Viva Media AG, offset by a modest loss relating to certain other disposals.

The minority interest charge has fallen from £8.5m to £6.4m, as a result of the decrease in profitability of our Japanese Recorded Music business in the year.

The overall group result was a profit of £229.7m, compared with a loss of £199.5m in the previous year, an improvement of £429.2m.

Adjusted diluted earnings per share were 15.6p, compared with 11.8p. The Board is recommending a final dividend of 6.0p per share to result in a total dividend of 8.0p per share, unchanged from last year.

'The year ended 31 March 2003 was one of substantial challenge but also unprecedented accomplishment for EMI.'

Cash Flow and Net Borrowings
The net cash inflow from operating activities was £117.2m. After net proceeds from acquisitions, disposals and financial investments of £204.5m, capital expenditure of £59.2m, tax paid of £38.7m, net interest costs of £4.6m (including the gain on the swap unwind discussed above), dividends paid of £35.9m, (including those to minorities) and currency translation gains and other movements of £14.8m, net debt decreased by £198.1m to £859.8m.

Pensions
The group continues to account under SSAP 24, but its disclosures also include those required by FRS 17. EMI maintains a number of defined benefit plans around the world the largest of which is the UK pension plan. As at 31 March 2002, that plan was in surplus by £68m, as calculated pursuant to FRS 17. With the decline in share prices to 31 March 2003, the asset value of the fund has fallen. Therefore, as calculated pursuant to the FRS 17 accounting standard, the fund would show a deficit as at 31 March 2003 of £116m, or £81.2m net of deferred tax. Under FRS 17, the calculation of the net position of the fund is highly sensitive to several factors. For example, had the calculation been performed as of 15 May 2003 as opposed to 31 March 2003, the asset value of the fund would have been higher by almost £40m given the rise in share values in the intervening period.

The group is scheduled to receive the triennial actuarial valuation of the UK fund as at 31 March 2003 in the coming months. Based upon the outcome of that valuation, the group will review its funding policies with respect to the fund.

Treasury Policy
Treasury activities are carried out within a framework of policies and guidelines approved by the Board, with control and monitoring delegated to the Treasury Management Committee, chaired by the Chief Financial Officer. These policies aim to ensure that adequate, cost-effective funding is available to the group at all times, and that exposure to financial risks is minimised. The existing Treasury policies were reviewed by the Board in April 2002 and have remained substantially unchanged throughout the financial year.

Financial instruments held by the group comprise derivatives, borrowings, cash and liquid resources and other financial assets and liabilities. Their purpose is to raise finance for the group's operations. Treasury policies prohibit their use for speculative purposes.

Funding
During the year, EMI restructured its debt into medium- and long-term facilities. The six-year sterling bond issued in May was increased in June to £325m, and in August a further US$180m was raised from a private placement of debt with maturities of between seven and 10 years. Together with net proceeds from the HMV disposal of £209.5m and £35.6m from the sale of fixed asset investments, these funds were used to repay and cancel part of the £1.3bn revolving credit facility finalised in April 2002.

The group borrows in various currencies at fixed and floating rates, and uses swaps, caps and collars to manage interest rate exposure. Unless otherwise approved by the Board, Treasury policy is to keep between 25% and 75% of borrowings at fixed or capped rates. As a result of the reduction in borrowings during the year, and as approved by the Board, at the year end virtually all borrowings were fixed or capped. Financial instruments held at 31 March 2003 to manage interest rate risk are disclosed in Note 19(viii) on page 79.

Foreign Currency Risk
The group faces currency exposure from exchange rate fluctuation against sterling. Balance sheet exposures are hedged to the extent that overseas liabilities, including borrowings, provide a natural hedge. Group policy is not to undertake additional balance sheet hedging measures, nor to hedge profit and loss account translation exposure. Transaction exposures are hedged, where there are material items that have a high probability of occurring, with the use of forward exchange rate contracts. Forward rate contracts held at 31 March 2003 are disclosed in Note 19(viii) on page 79.

Coldplay


Ms Dynamite

'We have developed a public statement that integrates our policies in a number of key areas of corporate social responsibility: workplace, community, environment, human rights, product values and supplier management.'

Social Responsibility

At EMI we believe that sound values are key to business success. Our Standards of Business Conduct policy, aimed principally at our employees, sets out the basic values by which we manage our business.

This year we have developed a public statement that integrates our policies in a number of key areas of corporate social responsibility (CSR): workplace, community, environment, human rights, product values and supplier management. The CSR policy was adopted by the Board in April 2003, and will be published this summer in our Social Responsibility Report for 2003.

We believe that this is a good step forward in terms of the increased levels of transparency that many of our stakeholders – artists, employees, shareholders, customers, suppliers, governments and society at large – are asking for. We are also continuing to expand the scope of our reporting to cover a wider range of CSR areas in our policy and this year our reporting of employment issues includes diversity.

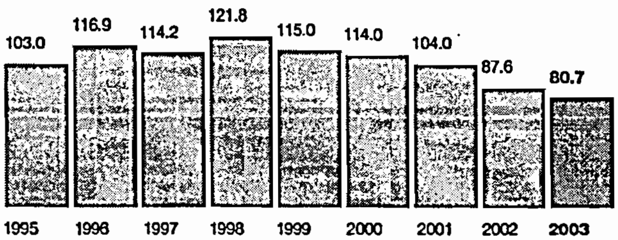
We are pleased that we continue to be included in a number of CSR indices, such as FTSE4Good and the Dow Jones Sustainability Group Index, and have retained our high sector ranking in Business in the Environment's 2002 'Index of Corporate Environmental Engagement'.

During the year we engaged with a number of investors and investment research organisations about our CSR practices, and were accepted as members of the Corporate Responsibility Group, an alliance of leading UK companies dedicated to driving forward corporate social responsibility. Within our sector, we continue to play an active role in the Media Sector CSR Forum as it works to identify key social responsibility issues for the sector and establish best practice.

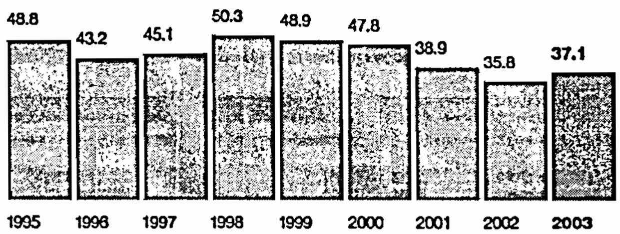
Employment
The integrated CSR policy includes the key points of our employment policy framework – equal opportunity, health and safety, open communication and fair reward. Responsibility for the management of employment matters continues to rest with each business operation within that framework.

We are committed to equal opportunity for all employees regardless of gender, ethnic or national origin, religion, disability, age, marital status or sexual orientation. We have begun to measure workforce diversity, in the UK and North America. In these regions, women made up 48% of all staff and 32% of management, and ethnic minorities made up 15% of all staff and 6% of management. A very small percentage of our staff (less than 1%) in these regions are disabled.

Global Warming Potential
CO_2 emitted due to energy use in buildings/factories (kilotonnes)



Global Warming Potential
CO_2 emitted due to energy use in buildings/factories per unit of turnover (tonnes/£m)



As part of our commitment to training and development, the Recorded Music division will be following up its recently launched performance management initiative with development programmes to encourage learning and development of core management skills. This complements programmes already in place at a local level in a number of our operating companies.

In employee health and safety, we have built on last year's reporting of UK performance and gathered statistics for most of our worldwide locations. These now cover all our manufacturing plants, distribution centres and recording studios as well as approximately 70% of our office locations. We had 55 reportable injuries/illnesses (8 per 1,000 employees), based on UK standards, and an average of 4.1 days' absence through illness per employee. We incurred no health and safety enforcement notices or convictions in any country in which we operate.

We have worked during the year to improve internal communications – through a new worldwide, fortnightly electronic newsletter, and by revamping our global intranet to provide a more useful, accessible and practical tool.

Community
We aim to make a positive contribution to the communities in which we operate, and to be a responsible neighbour. Globally, the main causes we support are youth and education, arts and culture, and health and welfare, and our businesses determine their community investment priorities locally within that framework.

At a corporate level, EMI continues to fund the administration costs of the Music Sound Foundation (MSF), enabling it to devote all of its resources to its funding activities.

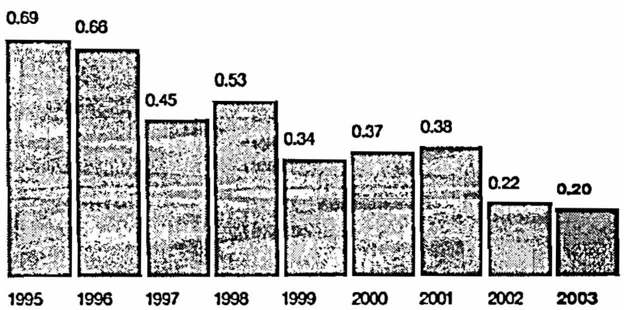
MSF continues to do wonderful work in the area of children's music education and has now made cumulative donations exceeding £1.6m to schools, students and teachers throughout Britain.

MSF's main activity remains the sponsorship of secondary schools that aspire to become performing arts colleges, and it is now the largest single sponsor of these arts colleges in the UK. To date 22 schools have successfully achieved arts college status with the help of MSF, bringing enhanced music, drama and dance education to over 20,000 students.

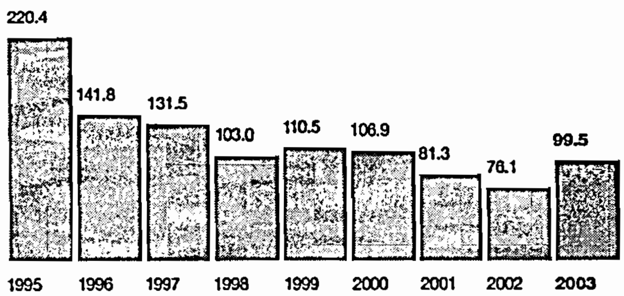
Rising costs mean that the demand for assistance from young people needing to improve the quality of their chosen musical instrument continues to grow. MSF has helped hundreds of individual students upgrade their instruments and, through its bursary scheme, has enabled dozens more to further their studies at music colleges.

EMI's worldwide charitable and sponsorship donations in the year totalled £1.5m. In the UK, the scale of EMI's overall activity qualifies it for the PerCent Club logo, the community investment benchmarking scheme run by Business in the Community. The logo is assigned to companies that invest more than 1% of their pre-tax profits in the community, through a combination of cash, time and gifts in kind.

Hazardous Waste
(tonnes/million units of output)



Solvent Use
(litres/million units of output)



Individual operating companies provide support to community and charitable activities in the form of one-off and longer-term cash donations, by provision of materials and facilities and by contributing employee time. Some examples follow:

In South Africa, EMI now supports Cotlands, a charity that provides care for abused, abandoned or terminally ill children with the objective of creating self-sufficiency for children and families living with HIV and Aids. In the run up to World Aids Day, EMI arranged for local pop group 101 to meet the Cotlands children, and made a generous donation to the charity. EMI staff will now forge closer links by providing commercial input and linking with other EMI-signed artists who want to get involved.

In the US, EMI's Capitol Records continued its long-standing support of the California Institute of Arts (CalArts) by providing studio time at Capitol Tower for a selected number of students (usually 10 groups a year) to record and mix a CD, and then manufacturing copies for distribution to the music press, college radio stations, educational conferences and other audiences. Some 500 young musicians, composers and graphic designers from CalArts have had their best work documented and distributed as a result of this annual project, and there is now a long list of talented CalArts graduates who have gone on to successful careers in music, working with artists including Macy Gray, The Wallflowers and Smashing Pumpkins.

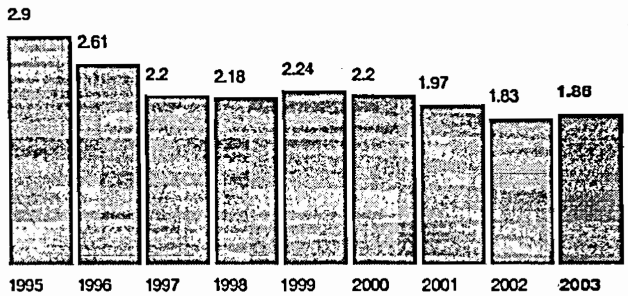
The UK's BRIT School (British Record Industry Trust) for Performing Arts and Technology is the only school in Britain dedicated to education and vocational training for the performing arts, media, art and design, and the technologies that make performance possible. It was established in 1992 with initial funding from the UK music industry. EMI Recorded Music in the UK offers very practical help in addition to its continuing financial support of the school: each year staff from EMI make a presentation to one of the BRIT School student groups and set a project for the students to undertake – generally these relate to developing business and marketing plans for a hypothetical band.

Environment
A highlight of the year in our environmental management programme was the introduction of renewable energy to more of our premises. In the UK, we have now moved to 100% renewables for electricity supply throughout our operations, and the manufacturing and distribution facility at Uden in the Netherlands also switched to renewables this year. CD manufacturing is energy intensive compared to the rest of our operations, and this should, therefore, produce a significant reduction in our worldwide carbon dioxide (CO_2) emissions and a consequent reduction in our global warming impact. Our CO_2 emissions this year dropped by 7.9% in absolute terms, although with the 11% fall in revenue they rose by 3.6% when related to turnover.

We have been tracking our solvent use since 1995, and have made steady progress in its reduction through both process changes and the use of replacement solutions. Solvents are volatile organic compounds; as such, they can both pollute the factory environment and, in quantity, contribute to photo-chemical smog.

'The manufacturing and distribution facility at Uden in the Netherlands also switched to renewable energy this year.'

Polycarbonate Scrap
(tonnes/million units of CD output)



This year, our plant in Uden discovered a calculation error in prior years that had led to under-reporting. This has now been corrected, and it accounts for almost all of the increase in reported solvent consumption this year (14.7% in absolute terms and 29.1% per unit produced). Our target is to resume our reduction in solvent use from this new base.

We generate very small amounts of hazardous waste which we continue to try to minimise. This year showed a drop of a further 11% per unit produced. In CD production, our levels of non-hazardous polycarbonate scrap rose by 1.6% per unit produced. The increase is almost wholly the result of the closure in 2002 of our UK plant, which had a very low scrap rate. Most individual plants achieved reductions.

Our US manufacturing facility in Jacksonville, Illinois, has successfully completed its first-round audit for certification to the ISO 14001 environmental management system and is on track for complete certification by the end of June 2003.

With this in place, 93% of our CD output will come from certified plants (up from 60% in the year ended 31 March 2003).

We continued our participation in 'Digital Europe', a pan-European study on the environmental and social effects of e-business supported by the European Commission and managed by the UK's Forum for the Future. Our environmental case study, carried out by German research partner the Wuppertal Institute, was the first attempt to quantify the impact of a shift from the traditional business model of manufacturing and distributing a physical CD to using direct digital distribution of the music. The initial findings are interesting, and show that, with so many variables involved (eg the time to download a music file), consumer behaviour will play a large part in realising the potential environmental benefits of digital distribution. If a consumer downloads and plays music digitally (but does not burn a hard copy onto a blank CD) then, in the best case, less than half the resources are used compared to traditional physical production. If CDs are burned at home, this saving could be reduced, reversed or, in some cases, enhanced, depending on how efficiently the CD-Rs are used for music storage.

We feel this has been a year of good progress in terms of EMI's contribution to society, and we will be building on this in future.

Rolling Stones

Utada Hikaru

Board of Directors

Executive Directors

Eric Nicoli (52)
Chairman

Eric Nicoli was appointed to the Board in 1993 as a Non-executive Director, becoming executive Chairman in July 1999. Until 30 April 1999, he was Group Chief Executive of United Biscuits (Holdings) plc (UB), which he joined from Rowntree Mackintosh in 1980. He was appointed to the UB Board in 1989 as Chief Executive, European Operations and became Chief Executive of UB in 1991.

Mr Nicoli is non-executive Chairman of HMV Group plc and The Tussauds Group Ltd, Chairman of The PerCent Club and The EMI Group Archive Trust, a Deputy Chairman of Business in the Community and a Director of Caldicott Trust Ltd, Charity Projects and Comic Relief Ltd.

Alain Levy (56)
Chairman and Chief Executive Officer
EMI Recorded Music

Alain Levy joined EMI and was appointed to the Board on 15 October 2001.

Mr Levy joined CBS International (now Sony Music) in 1972 and, after 12 years, moved to PolyGram, where he became President and CEO in 1991. In both companies he held various posts involving manufacturing, logistics, marketing and management. Mr Levy remained with PolyGram until it was sold to Seagram in 1998.

Mr Levy is a Director of David Linley & Co. Ltd and Ilchester Investments Ltd. He also sits on the advisory board of Schroders Ventures in the US and on the European advisory board of Wharton Business School.

Martin Bandier (61)
Chairman and Chief Executive Officer
EMI Music Publishing

Martin Bandier was appointed to the Board in April 1998. He joined EMI Music Publishing as its Vice Chairman in 1989 upon the acquisition of SBK Entertainment World Inc. (SBK), in which he was a founding partner. He was appointed CEO of EMI Music Publishing in 1991 becoming, in addition, Chairman in 1998.

Mr Bandier entered the music publishing business in 1975 as a founding partner of the Entertainment Music Company and the Entertainment Television Company and, together with his partners, created SBK in 1986.

Mr Bandier is a Director of the National Music Publishers' Association, the BMI Foundation, the Songwriters' Hall of Fame, the Rock and Roll Hall of Fame and the Syracuse University Board of Trustees. He is also a member of the Friars Foundation and the National Academy of Recording Arts and Sciences.

Roger Faxon (54)
Chief Financial Officer (CFO)

Roger Faxon was appointed CFO and joined the EMI Board on 5 February 2002. He joined EMI in 1994, initially as Senior Vice President, Business Development & Strategy, EMI Music and, from April 1999, as Executive Vice President and Chief Financial Officer, EMI Music Publishing.

Prior to 1994, Mr Faxon held finance, operations and general management positions. These posts included five years with Sotheby's, latterly as Managing Director, Sotheby's Europe and, previously, Chief Operating Officer, Sotheby's North and South America. This followed 10 years in the motion picture industry with LUCASFILM Ltd, The Mount Company and, finally, Columbia Pictures Entertainment. Earlier, Mr Faxon spent six years on the staff of the US Congress.

Non-executive Directors

Sir Dominic Cadbury (63)
Deputy Chairman and Senior Independent Non-executive Director

Sir Dominic joined the Board in 1998, becoming Deputy Chairman and Senior Independent Non-executive Director in July 1999. He is Chairman of the Remuneration and Nomination Committees.

Sir Dominic retired as Chairman of Cadbury Schweppes plc on 12 May 2000 after seven years in that post, having joined the company in 1964 after graduation from Stanford University. He joined the Board of Cadbury Schweppes in 1974 as Managing Director of its Foods Division and subsequently held a number of Board positions.

Sir Dominic is Chairman of The Economist Group and The Wellcome Trust. He is also a Director of the Teaching Awards Trust, Transense Technologies plc, Misys plc and The Thirty Club of London Ltd, and was installed as Chancellor of Birmingham University on 3 December 2002.

Dr Harald Einsmann (69)
Harald Einsmann joined the Board in 1992. He retired as Executive Vice President and a member of Procter & Gamble's Main Board and Executive Committee in 1999.

Dr Einsmann is a Director of Tesco plc, British American Tobacco plc and European Mediaxchange Ltd. He is also a member of the Board of Stora-Enso OY of Finland and he is the Executive Chairman of Findus A.B. of Sweden; both companies are members of the Swedish Wallenberg Group.

Peter Georgescu (64)
Peter Georgescu joined the Board on 1 September 2002.

Mr Georgescu is Chairman Emeritus of Young & Rubicam Inc., a network of commercial communications companies, having served as the company's Chairman and CEO from 1994 until January 2000. His career spans 38 years, with top management experience both in the US and Europe. Mr Georgescu emigrated to the US from Romania in 1954. He was educated at Exeter Academy, received his BA with cum laude honours from Princeton and has an MBA from the Stanford Business School.

Mr Georgescu is a Director of Levi Strauss & Co., International Flavors & Fragrances Inc. and Toys "R" Us, Inc. He is also Vice Chairman of the Directors of New York Presbyterian Hospital, serves on the Board of Directors of the New York Philharmonic and WNET/Channel 13, and is a member of the Council on Foreign Relations.

David Londoner (66)
David Londoner joined the Board on 13 May 2003.

Mr Londoner is the General Partner of The North River Company, L.P., a family investment partnership. He has been in the securities business his entire professional life and spent most of his career at Schroder & Co. Inc., joining a predecessor firm, Wertheim & Co., in 1972 and leaving when it was sold in 2000.

Mr Londoner is a director of Meredith Corp. and the New York Futures Exchange. He is also a Trustee of the American Museum of the Moving Image.

Kathleen O'Donovan (46)
Kathleen O'Donovan joined the Board in 1997 and has chaired the Audit Committee since 1999.

Ms O'Donovan was, until December 2002, Finance Director of Invensys plc, the global engineering services company formed by the combination of BTR and Siebe in 1999.

She is also a member of the Court of the Bank of England, and a Director of Prudential plc and Great Portland Estates PLC.

Board Committees

Audit Committee
Chaired by Kathleen O'Donovan

Membership: All Non-executive Directors

The Chief Financial Officer, the Vice President, Internal Audit, and representatives of the Company's external auditor attend meetings by invitation.

Remuneration Committee
Chaired by the Deputy Chairman

Membership: All Non-executive Directors

The Chairman and the Group's Human Resources Director normally attend meetings by invitation.

Nomination Committee
Chaired by the Deputy Chairman

Membership: All Non-executive Directors and the Chairman

Executive Committee
Chaired by the Chairman

Membership: All Executive Directors

Senior Company executives attend.

Finance Committee
Usually chaired by the Chairman

Membership: The Chairman and the Chief Financial Officer

The Senior Vice President, Tax and Treasury, may be invited to attend meetings.

Capex Committee
Chaired by the senior Director present

Membership: The Chairman and the Chief Financial Officer

Other Directors, senior Company executives and external advisers may be invited to attend meetings.

Directors' Report
for the year ended 31 March 2003

The Chairman's Statement, the Operating Reviews and the Financial Review in this Annual Report together contain details of the principal operations of the Group and their results during the year as well as likely future developments.

Dividends
An interim dividend of 2.0p per Ordinary Share was paid on 4 April 2003. The Board is recommending a final dividend of 6.0p per Ordinary Share, making a total of 8.0p (2002: 8.0p). The final dividend will be paid on Friday, 3 October 2003 to Ordinary Shareholders on the register as at the close of business on Friday, 5 September 2003, with the shares going ex-dividend on Wednesday, 3 September 2003.

Substantial shareholders
As at 15 May 2003 the Company had been notified of the following interests of 3% or more in its Ordinary Shares:

	No. of shares	% of capital held
Insight Investment Management Ltd/HBOS plc	46,029,466	5.83
The Capital Group Companies, Inc.	43,297,160	5.49
Schroder Investment Management Ltd	39,868,983	5.06
Aviva plc/Morley Fund Management Ltd	36,849,034	4.67
Merrill Lynch & Co, Inc. including Merrill Lynch Investment Managers Ltd	32,170,777	4.08
AXA S.A. and its subsidiaries	30,937,991	3.92
Legal & General Investment Management Ltd	28,464,577	3.61
Prudential plc group of companies	26,393,211	3.35

Share capital
Changes in the Company's share capital during the year are set out in Note 25 on pages 82 and 83.

Employment policies
Information on the Group's employment policies is given on pages 31 and 32.

Supplier payment policy
The Company negotiates payment terms with its suppliers on an individual basis, with the normal spread being payment at the end of the month following delivery plus 30 or 60 days. It is the Company's policy to settle the terms of payment when agreeing the terms of each transaction, to ensure that the suppliers are made aware of the terms, and to abide by them. The number of days' purchases outstanding at 31 March 2003 is calculated at 53 days (2002: 25 days).

Charitable and political contributions
Charitable, sponsorship and fundraising activities carried out during the year within the Group contributed £1.5m (2002: £1.7m) to charitable organisations and communities around the world. These included UK charitable donations amounting to £0.4m (2002: £0.1m). No UK political contributions were made (2002: £nil).

Research and development ('R&D')
During the year, Group expenditure on R&D totalled £0.1m (2002: £0.2m).

Directors
The present Directors of the Company are named on pages 37 and 38. All served as Directors throughout the year, other than Mr P A Georgescu and Mr D J Londoner, who were appointed on 1 September 2002 and 13 May 2003, respectively.

Mr M Jackson resigned as a Director on 7 May 2002, following the completion of the acquisition of USA Networks' US entertainment division by Vivendi Universal, and Mr H R Jenkins retired as a Director on 19 July 2002 at the conclusion of the 2002 Annual General Meeting.

Mr E L Nicoli retires by rotation at the Annual General Meeting ('AGM') pursuant to Article 112(A) and, being eligible, offers himself for re-election.

Mr Georgescu and Mr Londoner retire at the AGM pursuant to Article 112(B) and, being eligible, offer themselves for election.

No Director had a material interest in any contract of significance subsisting at the end of or during the year involving any Group company, other than by virtue of having a service contract, and as set out in Note 32(iii) on page 88. In July 2002, Mr K M Berry, a former Director, exercised his option to purchase, at fair market value, the house in Los Angeles that was provided to him rent-free by the Group.

Details of Directors' interests in the shares of the Company are set out in the Remuneration Report on pages 51 to 53.

Auditor
Resolutions to reappoint Ernst & Young LLP as the Company's auditor and authorising the Directors to determine its remuneration will be put to the forthcoming AGM.

Annual General Meeting
The 2003 AGM of the Company will be held at 2.30pm on Wednesday, 9 July 2003 at the Sainsbury Wing of the National Gallery, Trafalgar Square, London WC2N 5DN. The Notice of the AGM accompanies this Annual Report. In addition to the ordinary business of the meeting, resolutions will be put to shareholders to give authority to the Directors to allot shares, to disapply pre-emption rights, to purchase the Company's own shares and to approve the new Executive Share Incentive Plan. Further explanations of these matters are provided in the letter to shareholders that accompanies the Notice.

Electronic Proxy Appointment ('EPA')
EPA is being made available again at this year's AGM. CREST members may also use the CREST electronic proxy appointment service. Further information regarding EPA is set out in the notes in the Notice of AGM and on the Proxy Form.

By Order of the Board
C P Ashcroft
Secretary
19 May 2003

Corporate Governance

EMI is committed to high standards of corporate governance. The Board considers that the Company has complied throughout the year with the Code Provisions set out in Section 1 of the Combined Code issued by the Committee on Corporate Governance, apart from those relating to the length of Directors' service contracts, which are discussed in the Remuneration Report on pages 47 and 48.

Ernst & Young LLP has reviewed the Company's statement as to its compliance with the Combined Code, in so far as it relates to those parts of the Combined Code which the UK Listing Authority specifies for its review, and its report is set out on page 57.

The remainder of this section provides an explanation of how EMI applies the principles of good governance that are set out in the Combined Code.

The Board

The Board of EMI currently comprises four Executive Directors and five Non-executive Directors. All of the Non-executive Directors are considered to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Board considers that this includes Dr Harald Einsmann who has been a Non-executive Director since 1992. As reflected in their biographies, which appear on pages 37 and 38, the Directors have a wide and balanced range of experience in multinational and consumer-orientated businesses.

Eric Nicoli is executive Chairman of the Company, which incorporates the role of chief executive officer. Day-to-day executive responsibility for the running of the Company's two main businesses lies with Alain Levy, as Chairman and Chief Executive Officer, EMI Recorded Music, and Martin Bandier, as Chairman and Chief Executive Officer, EMI Music Publishing, who each report to Eric Nicoli.

In recent years, and as explained in previous Annual Reports, the Board has concluded that EMI has been best served by the CEOs of the Recorded Music and Music Publishing businesses reporting to an executive chairman who complements their music industry skills. The Board has further concluded that the interposition of another senior executive over the business CEOs would lead to unnecessary duplication and diffusion of responsibility.

The Board considers that, for the present, the structure outlined above is the most effective for EMI and is in the best interests of both the Company and its shareholders. Furthermore, the Board considers that the nature and level of matters reserved for decision, either to the Board as a whole or to standing committees of the Board, appropriately limit the authority of the Chairman and reflect the combination of the posts of chairman and chief executive officer in one person.

It is the Board's policy that, so long as the Chairman is also the chief executive officer of the Company, the independent Non-executive Directors should comprise a numerical majority of the Board and that the senior independent Non-executive Director should also be either sole or joint Deputy Chairman. Between 7 May and 19 July 2002 and from 1 September 2002 to 13 May 2003, there have been four Non-executive Directors; for the short period from 19 July to 1 September 2002, there were three such Directors. The number of Non-executive Directors increased to five on 13 May 2003. Sir Dominic Cadbury is the senior independent Non-executive Director.

The Board as a whole considers the appointment of Directors and executive appointments within the Board, based on recommendations from the Nomination Committee. The Articles of Association include a requirement that all Directors should submit themselves for re-election by the shareholders at least once every three years.

The Board meets at least seven times each year, with additional meetings or contact between meetings as necessary. The programme for each year is approved by the Board. Currently, the programme includes reviews of strategy together with the operations and results of the two main business units, as well as the approval of annual budgets. Actual results for the Group and individual business units are reported to all Directors each month. At least once each year the Board meets at the premises of one of the Group's business operations, to allow for presentations by, and more detailed discussions with, local management.

These procedures, together with other regular and ad hoc reports, are intended to ensure that the Board is supplied in a timely manner with information that is appropriate to the discharge of its duties.

The Board has delegated certain matters to standing committees, details of which are set out below. However, to ensure its overall control of the Company's affairs, the Board has reserved certain matters to itself for decision. These include the Group's strategic plans and annual operating budgets, significant acquisitions or disposals of companies, businesses or assets, and significant contractual commitments or items of expenditure, together with policies relating to the Group's treasury function, pensions, major litigation, employee share schemes, and environmental and ethical issues.

All Directors have access to the services and advice of the Company Secretary. There are also procedures for Directors, in appropriate circumstances, to obtain independent professional advice at the cost of the Company.

The Executive Directors are permitted to take external appointments as non-executive directors but, usually only one such appointment may be of another publicly quoted company. They may retain the remuneration from such appointments. All appointments must be approved by the Board to ensure that they do not give rise to conflicts of interest.

Board committees

The principal committees of the Board are the Audit, Remuneration, Nomination and Executive Committees. Reflecting the important role played by the independent Non-executive Directors in ensuring high standards of corporate governance, the Audit and Remuneration Committees comprise all the Non-executive Directors. Each committee has written terms of reference and levels of authority and, except in the case of the Remuneration Committee, minutes of meetings are circulated to all Directors.

The role of the Remuneration Committee, which is chaired by Sir Dominic Cadbury, is described on page 44. It meets at least three times each year. The main responsibilities and procedures of the other three principal Committees are as follows:

Audit Committee – chaired by Kathleen O'Donovan and comprising all the Non-executive Directors – makes recommendations to the Board regarding the appointment of the external auditor. Each year the Audit Committee reviews the independence and objectivity of the external auditor with a view to confirming that, in its opinion, the maintenance of objectivity on the one hand and value for money on the other have been kept appropriately in balance. In this context, the Committee currently considers that it is appropriate for the external auditor to provide to the Group tax compliance and other accounting services, including those in connection with supporting and reporting on financial representations in public documentation. The provision of these and other financial services continues to be assessed by the Committee on a case-by-case basis.

The Committee reviews the half-year and annual financial statements, with particular reference to accounting policies and practices, and the scope and results of the audit. It also reviews the Group's system of internal control including the risk assessment and audit plan of the Internal Audit Department and other control procedures. The Committee meets three times each year and its meetings are normally attended by the Chief Financial Officer, the external auditor and the Vice President, Internal Audit. At least once each year the Committee meets with the external auditor without the presence of Executive Directors or other management.

Nomination Committee – chaired by Sir Dominic Cadbury and comprising all the Non-executive Directors and the Chairman – makes recommendations to the Board on the appointment of Directors and the reappointment of Non-executive Directors on the expiry of their three-year term of appointment. The Committee meets when required.

Executive Committee – chaired by the Chairman and comprising the chief executive officers of the Company's two main businesses, together with the Chief Financial Officer – responsible for the approval of acquisitions, divestments, capital expenditure and contractual commitments below the level that the Board has reserved to itself for decision, and for certain operational, administrative and other routine matters. The Committee also regularly reviews and reports to the Board on the performance of the Group's businesses. The Committee meets at least ten times each year and senior Group executives regularly attend meetings.

Directors' remuneration
The Remuneration Report on pages 44 to 54 gives information about the Directors' remuneration.

Directors' responsibilities
UK company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and Group as well as the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that they have complied with these requirements in preparing the financial statements on pages 58 to 89.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern
The Directors believe, after making inquiries that they consider to be appropriate, that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal control
The Board is responsible for the Group's systems of internal control and for reviewing their effectiveness. These can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The full Board meets regularly throughout the year and the matters specifically reserved for its approval ensure that the Directors maintain control over significant strategic, financial and compliance matters.

The Group has an established organisational structure with clearly defined lines of responsibility and reporting. The Board has devolved to executive management responsibility for implementing and maintaining the Group's system of internal control. Each business unit operates in accordance with policies and procedures applicable to all of the Group's units.

The Group operates comprehensive annual planning, financial reporting and forecasting processes. The Board formally approves strategic plans and annual budgets. The Group's performance is monitored against budget on a monthly basis and all significant variances are investigated. There are defined authorisation procedures in respect of certain matters, including capital expenditure, investments, the granting of guarantees and the use of financial instruments. The Board also receives, twice yearly, a review of all material litigation undertaken by or against the Group's companies and considers the associated risks.

The strength of an internal control system is dependent on the quality and integrity of management and staff: those at senior levels are informed about their responsibilities as to the maintenance of sound systems of internal control. A routine Group-wide process, which requires key executives and managers to certify their compliance with the Group's policies and procedures, reinforces this integrity.

The internal audit function operates as one Group-wide department which monitors and supports the internal control system and reports both to the Audit Committee and the Group's senior management. The responsibilities of the internal audit function include recommending improvements in the control environment and ensuring compliance with the Group's procedures and policies. The Audit Committee reviews the risk assessment and audit plan prepared by the Internal Audit Department.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place for the year under review and up to the date of this Report. This process is regularly reviewed by the Board and accords with the requirements of Internal Control: Guidance for Directors on the Combined Code.

During the year to 31 March 2003, significant potential risks facing the Group have been assessed and graded in a process involving line and functional management throughout the Group and Internal audit. The controls in place to manage or mitigate each risk were reviewed for adequacy, and the processes to monitor and inform the Board about control performance were confirmed. This assessment, which is reviewed by the Audit Committee, is repeated annually. The risk and control assessment is also shared with senior management throughout the Group. During the review of controls, particular attention was paid to those in place to manage or mitigate any potential risks associated with major artist investments.

The Board is aware of the disclosure guidelines on social responsibility issued by the Association of British Insurers and has approved a social responsibility policy for the Group, covering environmental, employment, community and human rights issues as well as product values and supplier relationships. This provides an integrated top-level policy over more detailed policies and codes covering the individual areas.

Existing risk assessment procedures cover social, ethical and environmental issues. Additionally, the Group has begun a comprehensive review of its risk management programme that will include a review of the way in which it assesses and monitors significant social, ethical and environmental issues. A Social Responsibility Report (formerly the Environment and Community Report) is published annually.

The Audit Committee receives additional assurance on the operation of internal control systems around the Group, primarily from Internal Audit, which presents the conclusions of its reviews twice a year. The external auditor also takes internal financial control into consideration as part of its audit. In addition, incidences of control failure and the internal control implications of significant business issues are recorded in a central register, from which a summary report is prepared for the Audit Committee. Appropriate actions are taken to rectify any control failures. Any significant new issues and material changes to the risk environment are reported at each Board meeting.

The processes by which the Board receives assurance on the effectiveness of the control systems did not apply during the year to HMV Group plc, in which the Group ceased to have a minority investment on 22 November 2002. Potential risks to EMI were mitigated during that period through its representation on the Board of HMV Group and rights under shareholders' agreements.

Investor relations
The Group is committed to regular and open dialogue with investors. The Executive Directors hold discussions with institutional shareholders and analysts and, in addition, there are general presentations after the announcement of the half-year and annual results. Individual shareholders have the opportunity to question the Chairman and other Directors at the AGM and can meet them informally after the AGM. Results announcements and other press releases are made available on the Group's website as soon as possible after their publication.

Remuneration Report
for the year ended 31 March 2003

Remuneration Committee
The Board has delegated to the Remuneration Committee the approval of the remuneration and employment terms of the Executive Directors and certain other senior executives.

The Committee comprises the Non-executive Directors, all of whom are considered to be independent, and its membership during the year was as follows:

Committee Chairman
Sir Dominic Cadbury - *Non-executive Deputy Chairman and Senior Independent Non-executive Director*

Committee Members
Harald Einsmann - *Non-executive Director*
Peter Georgescu - *Non-executive Director* (since his appointment on 1 September 2002)
Michael Jackson - *Non-executive Director* (until his resignation on 7 May 2002)
Hugh Jenkins - *Non-executive Director* (until his retirement on 19 July 2002)
Kathleen O'Donovan - *Non-executive Director*

In addition, David Londoner joined the Committee on 13 May 2003 following his appointment as a Non-executive Director on that day.

Terms of reference
The key terms of reference of the Committee are as follows:

- To review in detail and approve all aspects of the terms and conditions of employment of each Executive Director of the Group, together with their pension rights and the amount and basis of any compensation payable.
- To review and approve the base salaries of the most senior direct-line reports to the Executive Directors, together with their remuneration packages, their pension rights and the amount and basis of any compensation payable.
- To approve the operation of any share plans (whether executive or all-employee) including the exercise, on behalf of the Board, of any authority delegated to the Board under the rules of those plans.
- To review periodically and supervise, on behalf of the Board, compliance by the Group with the Combined Code published by the Committee on Corporate Governance (June 1998), and any other applicable code of practice, listing rule or other regulatory or best-practice requirement relating to remuneration.

Attendance at meetings and advisers
During the year, the Committee appointed New Bridge Street Consultants to become its adviser. This firm has provided material advice to the Committee to assist it in developing and monitoring policies for remunerating senior employees throughout the Group, as well as the new long-term incentive plan for which shareholders' approval is being sought at the 2003 AGM. New Bridge Street Consultants has not, during the year, provided any other services to the Group.

The Committee schedules three meetings during each year but also holds additional meetings as and when material issues arise for discussion. During the last financial year, the Committee met on six occasions.

No non-Committee members are entitled to attend meetings of the Committee as of right although the Executive Chairman (the 'Chairman'), the Group Human Resources Director and the Company Secretary and Group General Counsel (in his capacity as Committee Secretary) are generally invited to attend to assist and advise the Committee on matters under consideration. Other executives may be invited to attend in respect of specific issues where their guidance may be of assistance to the Committee. In this regard, the Chairman and Chief Executive Officer of both EMI Recorded Music and EMI Music Publishing (respectively the 'CEO Recorded Music' and the 'CEO Music Publishing') have attended meetings and have provided material assistance and advice with respect to their respective divisions, while the Chief Financial Officer (the 'CFO') has attended to assist with financial issues. None of these attendees participates in any discussion relating to his or her own remuneration.

In monitoring the level and mix of remuneration packages, the Committee has access to a number of music and general industry remuneration surveys, covering both local and international data. The Committee takes into account factors such as the nature, size, complexity and international profile of the surveyed companies relative to EMI; it also seeks such specific advice from the external consultants as it considers appropriate.

Policy statement on Directors' remuneration

Background
The Committee recognises that, as a major UK-listed company, EMI should comply with the highest standards of corporate governance and, wherever it is appropriate to do so having regard to the wider interests of shareholders, UK remuneration best practices. Accordingly, the Committee periodically reviews EMI's remuneration practices against such standards and practices while recognising that the achievement of success in the highly competitive worldwide music market depends critically upon EMI's ability to compete for the management talent necessary to secure, develop and promote recording artists, composers and songwriters. EMI's remuneration policies, therefore, will continue to reflect the need to attract, retain and motivate top-calibre international management in the context of remuneration levels and practices in the international music and entertainment industry, many of which are set in the US, the indigenous repertoire of which, in the year ended 31 March 2003, amounted to 48% of worldwide record sales. In this regard, it should be noted that only 11% of EMI's senior executives are employed in the UK.

The Group's remuneration policies also recognise that the Music Publishing and Recorded Music businesses operate in distinct marketplaces. The level and form of remuneration will continue to be tailored to the different marketplaces in which the Group competes and to recognise the overall importance of creative talent to the success of the Group.

The remuneration packages of the Executive Directors have been designed to help them attain, and encourage them to retain, long-term interests in EMI's shares, and thereby align their interests with those of shareholders. Performance-related elements, in the form of annual bonuses and share-based long-term incentives, represent a significant proportion of remuneration, typically providing at least 50% of the total annual remuneration opportunity for the achievement of stretching performance targets.

Base salary
EMI believes pay should be closely linked to performance. Base salary levels are determined by the Committee having regard to the experience and performance of the individual executive, the performance of the Group as a whole over the preceding year, data regarding external salary levels for comparable positions and internal relativities. The Committee seeks to ensure that base salaries are generally set no higher than the median for the music industry.

Recognising the requirements of good corporate governance and a desire to constrain fixed costs to the advantage of all shareholders, base salaries for certain operating executives, most notably for the CEO Recorded Music, have been kept significantly below industry market levels. In these instances, in order to deliver competitive overall levels of pay, the balance of the overall remuneration is weighted more significantly towards long-term incentives than is the case with EMI's major competitors.

The base salaries for the Executive Directors for the financial year were as follows:

E L Nicoli	£680,000 pa
M N Bandier	US$3,092,266 pa
A M J I Levy	£680,000 pa
R C Faxon	US$766,025 pa

Salaries are reviewed annually with any increases generally taking effect on 1 July.

Annual bonus
Annual bonus opportunities are in line with general industry practice.

The Chairman's and the CFO's annual bonus opportunity at target and maximum performance is 50% and 100%, respectively, of base salary. The CEO Music Publishing's annual bonus opportunity at target and maximum performance is 50% and 80%, respectively, of base salary. The CEO Recorded Music is entitled, under his service agreement, to a maximum annual cash bonus of up to 200% of base salary, based on achieving stretching pre-set operating profit margins for EMI Recorded Music.

These bonus opportunities are paid in cash following the approval of the accounts for the relevant year. Executive Directors no longer have the opportunity to defer receipt of their bonuses for a period in return for a matching share award.

Performance criteria are tailored to individual positions and, subject to an overriding discretion of the Committee to ensure that bonuses are appropriate in all the circumstances, are determined as follows:

- For the Chairman and the CFO, bonuses are linked to the attainment of pre-set financial targets for the Group. This indicative amount can then be adjusted (up or down, but subject to the maximum of 100%) by up to a third, if the Committee believes circumstances so warrant.

- The annual bonus for the CEO Music Publishing is based on pre-set targets relating to the division's economic profit (ie taking into account the value of the investment in the business) from year to year, reflecting Music Publishing's objective to achieve sustained profit growth while providing an adequate return on invested assets.

- The annual bonus for the CEO Recorded Music is based on the division achieving stretching operating margin targets. Given the current uncertainty within the worldwide recorded music market, the Committee believes that it is important to control the cost structure of the Recorded Music business to ensure that costs can be supported by the repertoire as it develops. It therefore considers that operating margin should be the primary focus for the present. In addition, as can be seen from pages 48 and 53, the CEO Recorded Music has received option grants which provide a sufficient incentive for him to grow the business in the interests of all shareholders rather than simply maximising margin through cost savings alone.

The Committee's policy is not to pay transaction-related bonuses.

Details of the bonuses achieved during the year by individual Executive Directors are set out on page 50.

Long-term incentive arrangements
Of the Executive Directors, the Chairman and the CFO will participate in the new Executive Share Incentive Plan ('ESIP') for which shareholder approval is being sought at this year's AGM. Under the terms of the proposed ESIP, regular annual awards of both share options and performance shares will be made, with awards vesting after a fixed three-year period subject to the achievement of demanding pre-vesting performance conditions.

The Committee has determined that, for the first award to be made under the ESIP in 2003, options over shares worth up to two times base salary may be awarded, together with an award of performance shares worth up to one times base salary. These levels will only be exceeded, if necessary, in recruitment cases but in no case will they exceed eight times salary for options and four times salary for performance shares. In accordance with the terms of his service contract, the CFO's annual option grant will be not less than 250,000 shares.

One third of the number of share options granted may be exercised if normalised earnings per share ('EPS') growth, over the three years following grant (with no retesting opportunities), exceeds an average of retail price index ('RPI') plus 3% pa; two thirds of the number of share options granted may be exercised if normalised EPS growth exceeds an average of RPI plus 5% pa; and all share options granted may be exercised if normalised EPS growth exceeds an average of RPI plus 7% pa. To the extent that the targets have not been fully satisfied, options will lapse.

Performance share awards will vest by reference to the Company's relative Total Shareholder Return ('TSR') performance over a fixed three-year period (with no retesting opportunities). TSR is a measure of the return to a shareholder (in terms of share price appreciation, assuming reinvestment of any dividends) over a fixed period. 25% of the shares subject to an award will vest if the Company's TSR, relative to the companies in the FTSE Mid-250 index (excluding investment trusts), as at the date of grant, is at least at the median of that group. This will increase, on a straight-line basis, to full vesting if the Company's TSR is at least at the upper quintile (ie within the highest 20%) of that group.
Both the starting and ending TSR of the Company and each company in the comparator group will be assessed using three-month average figures. In addition to satisfying the TSR performance condition, awards will only vest to the extent that the Committee considers that the Company's TSR performance is reflective of the underlying performance of the Company over the period.

Remuneration Report

continued

The EPS and TSR targets, which were selected following extensive discussions with the Company's leading institutional shareholders and which have received the support of an overwhelming majority of those shareholders, are considered to be both demanding and stretching in light of the prevailing business climate over the medium term.

The EPS growth targets were chosen because profit growth (as measured through EPS) is currently a key objective within EMI and is considered to be the most appropriate measure of financial performance.

The FTSE Mid-250 Index was chosen as the TSR comparator group as there are no independently quoted music majors to provide a more bespoke comparator group and, therefore, it was felt appropriate to compare the performance of EMI with the constituents of the FTSE Mid-250 Index on the basis that, from an investor perspective, shareholders have the choice of investing in EMI as compared with other UK quoted companies of a similar size.

In all the circumstances, the Committee considers these two measures, taken together, to be the most appropriate method of assessing the success of EMI over the medium term and, accordingly, considers them to be appropriate performance conditions.

The EPS measure used will be fully diluted EPS adjusted to take account of exceptional items. EMI's performance against the EPS and TSR targets will be monitored by the Committee, which will assess the extent to which the targets have been achieved. The EPS calculations will be verified by the Company's external auditor while the TSR calculations will be undertaken by New Bridge Street Consultants, using data supplied by Datastream.

The CEO Music Publishing and the CEO Recorded Music have one-off long-term incentive arrangements covering, in Mr Bandier's case, the period from April 2001 to 31 March 2006 and, in Mr Levy's case, the period from October 2001 to 31 March 2006. In view of these one-off arrangements, which are described below, neither of them will participate in the ESIP for the duration of these arrangements:

- In 2001, in place of overlapping annual share awards based on three-year performance cycles, Mr Bandier was granted a one-time performance share award under the Group's Senior Executive Incentive Plan ('SEIP') of up to 1.25m shares. The performance condition for this award requires 2% pa growth in the Music Publishing division's economic profit for the entire performance period to 31 March 2006, at which level one sixth of the shares accrue, with maximum payout at 7% pa growth (with straight-line vesting between these two points). Mr Bandier was also granted a restricted share award under the SEIP of 662,500 shares. These shares will vest no earlier than 31 March 2006. The award was in lieu of additional base salary and is not, therefore, subject to performance requirements. The aim of the award was to bring Mr Bandier's basic annual remuneration into line with competitive practice in the US, where he is based, whilst aligning his interests more closely with those of the shareholders and providing him with a strong incentive to remain with the Group. No further awards of this nature are envisaged.
- On joining EMI in October 2001, Mr Levy was granted options over 10m shares at exercise prices ranging between 300p and 700p. The mid-market price of an EMI share on the date of grant was 265.26p. He was also entitled to subsequent grants of options, each over 2m shares, following the announcement of the interim results for each of the four financial years up to 31 March 2006. These levels of grant reflect the fact that his base salary and potential cash bonus are substantially lower than for equivalent positions in other major record companies, and are designed to align his interests closely with those of shareholders.

  On 19 December 2002, the remaining entitlements were consolidated into a single grant. The terms of the grant replicate those agreed on Mr Levy's joining and, therefore, the exercise prices will only be determined when the interim results for the respective years have been announced, using a five-day average share price. Similarly, the normal three-year vesting period will only commence on the date that the exercise price is determined.

  Exercise of all the options is generally conditional on the Company's adjusted diluted EPS growing by at least an average of RPI plus 2.5% pa over the period from 31 March 2002 to the 31 March following the relevant vesting date with retesting throughout the option's life.

  The Committee concluded that such grants were necessary to recruit Mr Levy, bearing in mind the significant salary sacrifice by him and, therefore, made such grants relying on the exemption in chapter 13.13A of the UK Listing Authority's Listing Rules. The Committee will not make amendments to the arrangements established for Mr Levy that are to his advantage without seeking the consent of shareholders. Consistent with the Company's general approach, no benefits under these option arrangements for Mr Levy will be pensionable.

Further details concerning these grants to Mr Bandier and Mr Levy, including those as to vesting on termination of employment or following a change of control of the Company, are set out in footnote (f) on page 52 and footnotes (f) and (g) on page 53, respectively.

Details of the share options granted to Executive Directors in previous years in accordance with the scheme(s) then applying and the performance criteria attaching to those grants are contained in the table of Directors' Share Options on page 53.

Benefits in kind
Benefits and perquisites are based on general industry practice and generally include a car or car allowance together with life assurance, retirement, disability and healthcare plans. Further details are set out on page 50.

Pension arrangements

- For UK-based Executive Directors, other than for the CFO whose pension arrangements are summarised below, the policy is to provide pension benefits through a 'final salary' arrangement with an accrual rate of 1/60th. Where possible, this is achieved through the Group's Inland Revenue approved occupational pension scheme. An unapproved scheme is utilised to provide benefits on salaries above the Inland Revenue imposed 'cap', with the level of contribution being set by reference to an actuarial assessment of the value of a 1/60th arrangement. Benefits are based on base salaries only and specifically exclude bonuses.

- For the US-based CEO Music Publishing, the Group's retirement plan contributions are made with respect to both salary and annual bonus, consistent with normal practice in the US and the Group's benefit arrangements for all US employees.

- For the mainly UK-based CFO, who is a US citizen, retirement plan contributions are made in respect of his base salary only.

Directors' service contracts

The Combined Code recommends that one-year notice periods or contract terms be set as an objective for Executive Directors. It is EMI's policy to achieve that objective, where possible.

The Committee endorses the principle of mitigation of loss on early termination of a service contract and recognises the advantage of service contracts including an explicit calculation of compensation payable upon early termination, other than for misconduct or in other circumstances justifying summary termination. The Committee's policy is that such a calculation should generally be based on base salary, annual bonus at target level and other benefits, including pension contributions, for the notice period or unexpired term of the service contract. The contract should also include an explicit obligation to mitigate and to offset earnings from alternative employment undertaken during the notice period or unexpired term of the contract against all or part of the compensation payment. However, the Committee is conscious that:

- EMI remains as the only independently owned and quoted music major in the world and has been the subject of takeover speculation for many years. To be able to compete for talent, it has, therefore, been necessary to provide an additional degree of protection for Executive Directors in certain cases.

- Fixed-term contracts of three or more years are the norm for senior executives in the global entertainment industry and such agreements often include no (or only a limited) obligation to mitigate.

- Employment contracts for music executives are often closely negotiated, with the executive represented by experienced industry attorneys.

In the light of such factors, the Committee considers that it is in the best interests of EMI and its shareholders to retain the flexibility to compete for top executive talent, where necessary, through the ability to offer contract terms in excess of one year. However, the Committee recognises that this is not consistent with UK remuneration best practices and, therefore, may agree to concede compensation payments calculated, where necessary, without mitigation in order to limit contract terms or notice periods to one year.

Chairman and CFO - Eric Nicoll and Roger Faxon

Mr Nicoli's service contract, dated 11 April 2003, is terminable by the Company on one year's notice. Mr Faxon's contract, dated as of 1 April 2003, allows EMI to terminate the contract at any time without notice with a specified severance payment calculated on the same basis as if he were entitled to one year's notice. Previously, the effective notice period for both Mr Nicoli and Mr Faxon would increase to two years following a change of control. However, recognising the views of institutional shareholders, they have agreed, for no compensation, to reduce evenly over the course of the current financial year, the notice period following a change of control, so that, as from 1 April 2004, they will both be subject to the standard one year in all circumstances.

In the case of gross misconduct or other circumstances justifying summary dismissal, the Company may terminate their service contracts without payment of compensation. Termination by the Company in other circumstances, without the required notice being given, entitles the departing executive to lump-sum compensation, calculated on:

- his then base annual salary (currently £680,000 pa in the case of Mr Nicoli and US$766,025 pa in the case of Mr Faxon); plus,

- the value of retirement benefits and either the continued enjoyment of, or the value of, benefits in kind provided to him (the accrued value of such retirement contributions and the benefits in kind would have been £387,083 in the case of Mr Nicoli and US$444,115 in the case of Mr Faxon had they been dismissed on 31 March 2003); plus,

- a sum in respect of his annual bonus opportunity, being the amount equal to his target-level annual bonus opportunity (currently 50%) multiplied by his base salary for the period from:

    - in the case of Mr Nicoli, the date of his departure to the end of the contractual notice period:

    - in the case of Mr Faxon, the commencement of the financial year in which he departed to the end of the contractual notice period.

Mr Nicoli's entitlement to such compensation is subject to both a duty to mitigate and offset for any earnings which he derives from other employment during the unworked part of the notice period for which he has been compensated.

In the light of competitive music industry practice, and in recognition of Mr Faxon's agreement, when he was promoted to CFO, to reduce his basic contract term from two years to one year, there is no obligation on him to mitigate or to offset against the compensation payment any earnings from alternative employment during the year following termination. However, the Company's obligation to continue to provide insurance benefits will cease to the extent that similar benefits are provided by another employer following termination.

Remuneration Report
continued

CEO Recorded Music – Alain Levy
Mr Levy's service contract, which commenced on 15 October 2001, allows the Company to terminate his employment at any time without notice. If termination is for cause, no compensation is payable. If termination is without cause, or Mr Levy terminates the agreement for good reason (for example, breach by EMI), he is entitled to a severance payment calculated on the basis of one year's pay, as defined below. However, this is increased to two years' pay on termination without cause following a change of control of the Company.

The Committee considers that this provision is appropriate in view of Mr Levy's acceptance of a base salary and annual cash bonus opportunity significantly lower than equivalent positions in other major record companies and a basic contract term of one year, which is also substantially less than competitive music industry practice. The provision was an important factor in Mr Levy agreeing to join the Company, since his previous employment had been terminated following a change of control of his employer, despite his success in building that company into the world's largest music company. In approving the provision, the Committee took into account the fact that two years' compensation on termination without cause following a change of control, would be materially less than one year based on a typical music industry salary and bonus package.

Where compensation is payable in respect of Mr Levy's service contract, it is specified to be a lump sum calculated on:

- his then base annual salary (currently £680,000 pa); plus,
- the value of retirement benefits and either the value of, or the continued enjoyment of, other benefits in kind provided to him (the value of such retirement accrual and the benefits in kind would have been £335,704 had he been dismissed on 31 March 2003); plus,
- the average annual bonus earned by him over the last three financial years (or the period since he joined the Company, if less) (£340,000 in respect of the year ended 31 March 2003).

At the time of his appointment, Mr Levy accepted a basic contract term of one year, which is significantly less than competitive music industry practice, as well as a base salary and potential cash bonus at levels substantially lower than those for equivalent positions in other major record companies. In recognition of this, there is no obligation on Mr Levy to mitigate or to offset against the compensation payment any earnings from alternative employment following termination. It was considered inappropriate to seek to renegotiate this aspect of Mr Levy's contract following the issue of the latest Association of British Insurers' guidelines in this regard.

CEO Music Publishing – Martin Bandier
Mr Bandier's service contract, dated as of 1 April 2001, is with a US subsidiary of EMI and is governed by New York state law. The contract allows the employing company to terminate his employment at any time without notice. If termination is for cause, no compensation is payable. If termination is without cause, or Mr Bandier terminates the contract for good reason, he is entitled to compensation based on two years' salary and benefits. The Committee considers that these terms for Mr Bandier are appropriate in view of competitive practice in the US, where he is resident and where EMI Music Publishing is headquartered, and the fact that the service contract is intended to secure his services until age 65. Additionally, following a change of control of the Company, Mr Bandier is entitled to terminate his service contract after a one-year transitional period and to receive a compensation payment as described below. Mr Bandier's contract also provides for its automatic expiry on 31 March 2006.

Where compensation is payable in respect of termination of Mr Bandier's service contract, it is specified to be the aggregate of:

- his then base annual salary (currently US$3,092,266) for two years; plus,
- continuation for two years (or for one year if termination occurs after 1 April 2005) of medical and dental benefits and retirement plan contributions (the accrued value of such retirement contributions and medical and dental benefits for the year ended 31 March 2003 would have been US$1,578,120 if he had been terminated on that date); plus,
- an amount equal to his target-level annual bonus opportunity (currently 50% of base salary) for two years.

While, reflecting competitive music industry practice, there is no specific obligation on Mr Bandier to mitigate, the continuation of salary and bonus for 12 months after termination is subject to offset in respect of salary and bonus earned by Mr Bandier from a subsequent employer in the 12 months following termination; and the continuation of benefits is also offset to the extent of similar benefits provided by the subsequent employer.

The provisions in Mr Levy's service contract regarding change of control and in Mr Bandier's contract regarding two years' compensation on termination have been discussed with both the Association of British Insurers and the National Association of Pension Funds.

Non-executive Directors
Non-executive Directors do not participate in EMI's bonus scheme or long-term incentive plans and are not eligible for membership of any of the Group's pension plans. Their fees are payable wholly in cash.

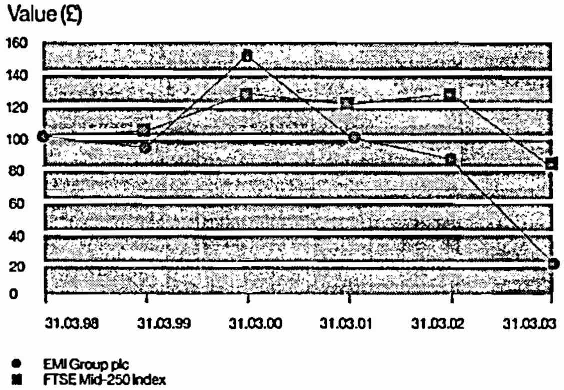
The Non-executive Directors do not have service contracts with the Company. Each Non-executive Director is appointed for a specified term of an initial period to the next AGM after appointment and, subject to election at that Meeting, for a further period ending at the third AGM held thereafter. Subsequent re-election is subject to endorsement by the Board and the approval of shareholders. Each Non-executive Director's date of appointment as a Director and his or her most recent date of re-election at an AGM is shown below:

	Date of appointment as a Non-executive Director	Date of last re-election at AGM
Sir Dominic Cadbury	20.2.98	20.7.01
H Einsmann	18.5.92	19.7.02
P A Georgescu	1.9.02	–
D J Londoner	13.5.03	–
K A O'Donovan	21.11.97	20.7.01

Their appointments may be terminated at any time without compensation in the event that they are not re-elected by shareholders or otherwise in accordance with the Company's Articles of Association. On termination, a Non-executive Director is entitled to any accrued but unpaid Directors' fees, but not to any other compensation.

Total shareholder return performance graph
The new Directors' Remuneration Report Regulations 2002 require companies to include a graph indicating their TSR (ie share price growth assuming reinvestment of any dividends) performance over the last five years relative to a recognised equity index. In the absence of a suitable index of true comparators, the Committee has elected to show EMI's performance related to the FTSE Mid-250 Index the constituents of which comprise the comparator group for the TSR performance condition to which awards under the ESIP will be subject.

Total shareholder return
Source: Datastream



This graph looks at the value, by the end of March 2003, of £100 invested in EMI Group plc on 31 March 1998 compared with the value of £100 invested in the FTSE Mid-250 Index. The other points plotted are the values at intervening financial year ends.

Policy on outside appointments
The Executive Directors are permitted to take external appointments as non-executive directors but usually only one such appointment may be by another publicly quoted company. They may retain the remuneration from such appointments. All appointments must be approved by the Board to ensure that they do not give rise to any scope for conflicts of interest.

Share ownership guidelines
During the year, the Committee adopted a formal policy of requiring Executive Directors to hold shares in EMI worth at least two times their respective salaries. Executive Directors are required to build up this shareholding by retaining shares with a value of at least 25% of the after-tax gain arising on the maturity of any long-term incentive awards.

Payments to former Directors during the financial year
During the year, amounts were paid to former Directors, as follows:

K M Berry
In accordance with the terms of his service agreement, Mr Berry was paid further amounts during the year in respect of salary continuation, benefits and annual bonus. The value of all these amounts was reported in the Directors' Remuneration Report for the year ended 31 March 2002.

Notwithstanding the termination of his agreement, Mr Berry had the right to continued use, for two years following the date of termination of his employment, of the house in Los Angeles provided to him rent-free by the Group. He also had the option to purchase that property and its contents for the externally appraised market value. He exercised this option on 31 July 2002, paying the Group US$6.0m which represented a profit of US$2.015m (£1.4m) over the Group's book value for the property. As a result, his right of use, the value of which was reported in the financial year ended 31 March 2002, was extinguished.

Mr Berry's remaining grants under the Group's share option schemes lapsed, without being exercised, on 14 October 2002.

A J Bates
Mr Bates ceased to be a Director on 4 February 2002 but remained as an employee of the Group until 31 May 2002.

In accordance with the terms of his service agreement and the subsequent letter of termination, Mr Bates was paid certain sums during the financial year ended 31 March 2003 and certain share awards vested. All of these sums were reported in the financial year ended 31 March 2002, other than the salary and benefits paid to Mr Bates between 1 April 2002 and 31 May 2002, which amounted to £133,221 in aggregate.

Of Mr Bates's entitlements under the Group's SEIP, a total of 290,479 shares vested as at 31 May 2002. Up to a further 118,687 shares could vest on or before 30 June 2004, if the related performance criteria are fulfilled. All of Mr Bates's remaining entitlements under the Group's share option schemes will lapse on 31 May 2003.

Remuneration Report
continued

Remuneration details

Annual remuneration[a]

	Base salary or fees £'000	Compensation for loss of employment £'000	Expenses £'000	Benefits[b] £'000	Incentive remuneration £'000	2003 Total in year £'000	2002 Total in year £'000
Executive Directors:							
E L Nicoll	**671.2**	**–**	**–**	**67.2**	**340.0**	**1,078.4**	685.5
M N Bandier[c]	**1,934.3**	**–**	**–**	**49.1**	**1,547.4**	**3,530.8**	3,726.6
A M J I Levy[d]	**680.0**	**–**	**–**	**182.5**	**340.0**	**1,202.5**	738.3
R C Faxon	**495.2**	**–**	**–**	**39.4**	**247.6**	**782.2**	103.4
Non-executive Directors:							
Sir Dominic Cadbury	**57.1**	**–**	**–**	**–**	**–**	**57.1**	53.1
H Einsmann	**34.3**	**–**	**–**	**–**	**–**	**34.3**	32.4
P A Georgescu (appointed 1.9.02)	**18.8**	**–**	**–**	**–**	**–**	**18.8**	–
K A O'Donovan	**39.5**	**–**	**–**	**–**	**–**	**39.5**	37.4
Former Executive Directors:							
K M Berry (resigned 14.10.01)	**–**	**45.0**[e]	**–**	**–**	**–**	**45.0**	7,448.1
A J Bates (resigned 4.2.02)	**–**	**–**	**–**	**–**	**–**	**–**	2,276.3
Former Non-executive Directors:							
M R Jackson (resigned 7.5.02)	**5.6**	**–**	**–**	**–**	**–**	**5.6**	32.4
H R Jenkins (retired 19.7.02)	**10.4**	**–**	**–**	**–**	**–**	**10.4**	32.4
Total 2003	**3,946.4**	**45.0**	**–**	**338.2**	**2,475.0**	**6,804.6**	**–**
Total 2002	4,905.1	7,795.3	–	447.6	2,017.9	–	15,165.9

[a] Excludes retirement contributions (see table on page 54) and the value of share awards ceasing to be contingent, as reported in the table shown below.

[b] The nature of the non-cash benefits provided to the Executive Directors is as follows:

E L Nicoll:
- provision of a Company car plus use of a Company pool car and driver;
- private healthcare; and,
- personal accident insurance.

M N Bandier:
- car allowance of US$36,000 pa; and,
- participation in the Group's US executive medical plan, life, health (hospital, major medical and dental) and accident insurance.

A M J I Levy:
- use of a Company pool car and driver;
- private healthcare; and,
- personal accident insurance.

R C Faxon:
- car allowance of US$25,000 pa;
- participation in the Group's US executive medical plan, life, health (hospital, major medical and dental) and accident insurance; and,
- health club memberships in both New York and London.

[c] Highest-paid Director.

[d] In accordance with Mr Levy's service agreement, a payment of £138,232 was made to Ilchester Investments Ltd, a company controlled by Mr Levy and his family, to reimburse the costs of its early surrender of the lease of its office premises following Mr Levy joining EMI.

[e] This sum represents an assessment of Mr Berry's rent-free use of housing in California provided by the Group until its sale during July 2002.

Remuneration from prior-year share awards ceasing to be contingent

	2003 Awards No. of shares	2003 Total value[a] £'000	2002 Awards No. of shares	2002 Total value[a] £'000
Executive Directors:				
E L Nicoll	**–**	**–**	**21,667**[b]	**78.5**
M N Bandier	**165,625**[b]	**147.8**	**87,500**[b]	**317.2**
A M J I Levy	**–**	**–**	**–**	**–**
R C Faxon	**44,436**	**39.7**	**–**	**–**
Former Executive Directors:				
K M Berry (resigned 14.10.01)	**–**	**–**	**229,912**	**784.6**
A J Bates (resigned 4.2.02)	**–**	**–**	**75,344**	**273.1**
Total	**210,061**	**187.5**	**414,423**	**1,453.4**

[a] The value is based on the share price on the date that awards ceased to be contingent.

[b] Whilst in certain circumstances these restricted share awards may lapse or be released before the vesting date, a proportion of their value is included in reported remuneration each year to match remuneration costs more accurately to the time period in which these shares are earned.

Directors' interests

Directors' interests (all beneficial) in the Company's Ordinary Shares of 14p each[ab]

	Non-contingent share awards[c]	Directly held shares	As at 31.3.03 Total shares held[d]	As at 1.4.02 or date of appointment if later Total shares held
Executive Directors:				
E L Nicoli[d]	**133,982**	**69,186**	**203,168**	138,032
M N Bandier	**–**	**379,760**	**379,760**	155,060
A M J I Levy	**–**	**775,000**	**775,000**	700,000
R C Faxon	**296,182**	**36,473[e]**	**332,655**	220,027
Non-executive Directors:				
Sir Dominic Cadbury	**–**	**50,000**	**50,000**	20,000
H Einsmann	**–**	**1,800**	**1,800**	1,800
P A Georgescu	**–**	**100,000**	**100,000**	–
K A O'Donovan	**–**	**2,000**	**2,000**	2,000

[a] The Company's Register of Directors' Interests is available for inspection in accordance with the provisions of the Companies Act 1985.

[b] No Director had any interest in either shares or debentures of any subsidiary of the Company.

[c] Non-contingent share awards shown in this column are also included as incentive awards in the table on page 52.

[d] On 23 May 2003, Mr Nicoli's interests in the Company's shares increased by 64 shares on the reinvestment of dividends and tax credits received in respect of shares held by him and his wife through EMI Corporate Personal Equity Plans.

[e] The total of directly held shares does not include the post-tax amount of an incentive share award of 19,518 shares and the related 2:3 matching award of 13,012 shares that vested during the year, as the shares could not be delivered to Mr Faxon until after the end of the close period for Directors' share dealings on 21 May 2003.

Remuneration Report

continued

Outstanding awards under long-term incentive plans

	Date of award	As at 1.4.02 Incentive[a]	As at 1.4.02 Performance[b]	As at 1.4.02 Restricted[c]	During year Awarded	During year Matching awards	During year Vested	During year Lapsed	As at 31.3.03
Executive Directors:									
E L Nicoli	31.5.00	67,722	–	–	–	–	–	–	67,722
	22.6.00	–	124,538	–	–	–	–	(124,538)[d]	0
	31.5.01	66,260	–	–	–	–	–	–	66,260
	15.6.01	–	155,297	–	–	–	–	–	155,297
Total		**133,982**	**279,835**	**0**	**0**	**0**	**0**	**(124,538)**	**289,279**
M N Bandier	23.8.96	–	108,214	–	–	–	–	(108,214)[d]	0
	6.6.97	–	110,974	–	–	–	–	–	110,974
	28.9.01	–	1,250,000[f]	–	–	–	–	–	1,250,000
	28.9.01	–	–	662,500[f]	–	–	–	–	662,500
Total		**0**	**1,469,188**	**662,500**	**0**	**0**	**0**	**(108,214)**	**2,023,474**
A M J I Levy		–	–	–	–	–	–	–	0
Total		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
R C Faxon	23.8.96	–	24,594	–	–	–	–	(24,594)[d]	0
	6.6.97	19,518	–	–	–	13,012[e]	(32,530)	–	0
	6.6.97	–	19,518	–	–	–	–	–	19,518
	18.6.99	88,848	–	–	–	–	–	–	88,848
	31.5.00	18,888	–	–	–	–	–	–	18,888
	22.6.00	–	74,374	–	–	–	(44,436)	(29,938)[d]	0
	31.5.01	56,300	–	–	–	–	–	–	56,300
	15.6.01	–	103,803	–	–	–	–	–	103,803
	28.5.02	–	–	–	112,628[g]	–	–	–	112,628
Total		**183,554**	**222,289**	**0**	**112,628**	**13,012**	**(76,966)**	**(54,532)**	**399,985**

[a] Incentive share awards are not contingent on future performance and/or are no longer subject to forfeiture. Such awards, made under the current Senior Executive Incentive Plan, are subject to an additional 1:3 matching award if deferred for three years from the date of the award or an additional 2:3 matching award if deferred for six years from the date of the award.

[b] Shows total potential award. The total of the eventual award depends on the achievement of Group or business unit performance against profit targets set by the Remuneration Committee by the end of a performance period that terminates on 31 March in the third year after the date of the award. For awards made prior to 1998, performance is further reassessed in each of the following three years before the award lapses. The eventual award is subject to an additional 1:3 matching award if vesting is deferred for a further three years from the vesting date. In certain circumstances, for example upon a change of control of EMI, awards could be released before the normal vesting date. For Mr Nicoli, Mr Bandier and Mr Faxon, release of awards made up to 31 March 2001 is subject to a further performance requirement that EMI's Total Shareholder Return must have at least equalled the median of those companies that comprised the FTSE 100 at the start of the three-year performance cycle. Mr Nicoli has a performance share award granted on 15 June 2001 which will vest on a sliding scale against three-year compound growth in earnings of between 6.1% and 22.5%. Mr Faxon continues to participate in a performance share award granted on 15 June 2001 based on Music Publishing's performance, which requires the same rates of compound growth but related to Music Publishing's economic profit.

[c] Mr Bandier's restricted share award is not subject to performance criteria. A proportion of this award is included in remuneration each year so as to match remuneration costs more accurately to the time period in which the shares are earned. In certain circumstances, the award could lapse or be released before the vesting date, as described in footnote (f) below.

[d] Lapsed as of 31 March 2003.

[e] On vesting of the base award, a 2:3 matching award of 13,012 shares was made.

[f] Mr Bandier's outstanding share awards, which are set out in the table above, would vest, in whole or in part, if he was dismissed (other than for cause) or following a change of control of EMI. Both his performance share and restricted share awards will lapse if, prior to the vesting date of 31 March 2006, Mr Bandier resigns voluntarily or his employment agreement is terminated by EMI for cause. However, if Mr Bandier's employment is terminated without cause by EMI, he will receive the proportion of his restricted share award which he would have earned had he remained in employment for a further two years. Under these same circumstances, he would also receive a proportion of his performance share awards pro rated to the date of termination, subject to the achievement of the relevant performance criteria. In the event of a change of control of EMI, all the restricted share award would vest together with a proportion of the performance share award pro rated to the date of the change of control. Following a change of control, a pro rata proportion of his performance share award would vest together with an additional 625,000 shares up to the maximum award of 1.25m shares on the earlier of one year after the date of the change of control or the termination of his employment without cause.

[g] Mr Faxon received an incentive award of 112,628 shares on 28 May 2002 when the closing mid-market share price was 267.25p.

Directors' share options over Ordinary Shares of 14p each[a][b]

	Date granted	Earliest normal exercise date[c]	Lapse date[e]	Exercise price	As at 1.4.02 or date of appointment if later	Exercised in year	Granted in year	Lapsed in year	As at 31.3.03
Executive Directors:									
E L Nicoli	3.6.99	3.6.02	5.6.09	440.000p	60,000	–	–	–	60,000
	21.12.00	1.2.06[d]	31.7.06	442.000p	3,817	–	–	(3,817)	0
	20.6.02	1.9.07[d]	29.2.08	221.000p	–	–	7,488	–	7,488
	21.6.02	21.6.05	20.6.12	243.300p	–	–	838,471	–	838,471
Total					**63,817**	**–**	**845,959**	**(3,817)**	**905,959**
M N Bandier	25.8.95	25.8.98	24.8.05	590.315p	253,084	–	–	–	253,084
	23.8.96	23.8.99	22.8.06	734.500p	60,000	–	–	–	60,000
	6.6.97	6.6.00	5.6.07	575.000p	52,144	–	–	–	52,144
Total					**365,228**	**–**	**–**	**–**	**365,228**
A M J I Levy[g]	15.10.01	15.10.04	14.10.11	300.000p	3,000,000	–	–	–	3,000,000
	15.10.01	15.10.04	14.10.11	400.000p	3,000,000	–	–	–	3,000,000
	15.10.01	15.10.04	14.10.11	500.000p	2,000,000	–	–	–	2,000,000
	15.10.01	15.10.04	14.10.11	700.000p	2,000,000	–	–	–	2,000,000
	2.1.02	2.1.05	1.1.12	357.300p	2,000,000	–	–	–	2,000,000
	19.12.02	19.12.05	18.12.12	146.050p	–	–	2,000,000	–	2,000,000
	19.12.02[f]	19.12.06	18.12.12[f]	–	–	–	2,000,000	–	2,000,000
	19.12.02[f]	19.12.07	18.12.12[f]	–	–	–	2,000,000	–	2,000,000
	19.12.02[f]	19.12.08	18.12.12[f]	–	–	–	2,000,000	–	2,000,000
Total					**12,000,000**	**–**	**8,000,000**	**–**	**20,000,000**
R C Faxon	23.8.96	23.8.99	22.8.06	734.500p	67,500	–	–	–	67,500
	6.6.97	6.6.00	5.6.07	575.000p	50,326	–	–	–	50,326
	5.2.02	5.2.05	4.2.12	305.000p	500,000	–	–	–	500,000
	28.5.02	28.5.05	27.5.12	267.250p	–	–	250,000	–	250,000
	21.6.02	21.6.05	20.6.12	244.000p	–	–	283,000	–	283,000
Total					**617,826**	**–**	**533,000**	**–**	**1,150,826**

[a] No Directors' share options were exercised in the year. Therefore, the total gain made on the exercise of share options was £nil (2002: £nil). The closing mid-market share price on 31 March 2003 was 89.25p. The range of closing mid-market share prices during the year was 80p to 365p.

[b] All of the options were granted for nil consideration.

[c] Executive Directors' share options are normally exercisable during the period commencing no earlier than three years and ending no later than 10 years from the date granted.

[d] ShareSave options are normally exercisable for a six-month period following completion of savings to either a three-year or a five-year ShareSave contract.

[e] Share options were granted to Executive Directors in previous years in accordance with the relevant Executive Share Option Scheme rules and market practice at the time. The table above sets out information on the current Executive Directors' grants of share options. The performance criteria relating to these grants are as follows:

- For the period from 25 August 1995 to 9 December 1999, the criterion was that the Company's Total Shareholder Return ('TSR') over the relevant calculation period compared to the TSR of the companies in the FTSE 100 at 1 April prior to the date of grant is at least equal to the median of that group. TSR is the percentage growth of the share price, assuming reinvestment of any dividends paid, over the calculation period. The initial calculation period commences on 1 April immediately preceding the date of grant and ends on 31 March three years later and, thereafter, calculations are made at each quarter end for the preceding three-year period until the performance criterion is met or the option lapses.

- For the period 10 December 1999 to date, the criterion is that the increase in the Group's adjusted, fully diluted earnings per share over a three-year period following the date of grant exceeds an average of the UK Retail Prices Index plus a rate ranging between 2% and 3% pa.

The Committee chose the relevant performance criteria as they were considered to be challenging, to align Executive Directors' interests with those of shareholders and in accordance with the then existing market practice. On termination of employment in certain circumstances, for example, as a result of death, disability, sale of the relevant business unit, normal retirement, or termination without cause, and if the performance criteria are on target for achievement, a proportion of the option may become exercisable prior to normal vesting. If the performance criteria are not on target for achievement, the whole option lapses if it has not reached its normal vesting date. Upon a change of control, all options vest, or can be exchanged for an equivalent value of options in the acquiring entity, with identical terms to the original options. Similar provisions also apply to awards made under the SEIP. Details of how these provisions have been applied in individual cases and how the one-off arrangements for Mr Bandier and Mr Levy apply on termination of their employment in these circumstances are set out in footnote (f) on page 52 and in footnote (g) below, respectively.

[f] On appointment, Mr Levy was granted options over 10m shares at prices between 300p and 700p. Since appointment, Mr Levy has been granted additional options over a further 10m shares which represent his entitlement to options in respect of the five financial years up to and including, but ending on, 31 March 2006. The exercise prices for these options will only be determined when the interim results for the respective financial years have been announced, using a five-day average share price.

[g] The terms of Mr Levy's contract prescribe the impact of a cessation of employment or a change of control of EMI on the share options granted under his contract. If Mr Levy's appointment is terminated by EMI without cause or by Mr Levy with good reason (as defined in the contract) prior to 15 October 2003, the options over 8m shares priced from 300p to 500p will vest and may be exercised without regard to the performance conditions but all other such options will lapse. Should Mr Levy's appointment be terminated in such circumstances after 15 October 2003, the options over all 10m shares will vest and may be exercised without regard to the performance conditions.

If Mr Levy's appointment is terminated in the circumstances described in the preceding paragraph, the options referred to in footnote (f) for which the prices have been determined by the date of termination, as set out in the table above, will vest and may be exercised without regard to the performance conditions; all other options would lapse. The exercise of options vested under the preceding paragraph must be undertaken within 12 months of the date of termination. On a change of control of EMI, Mr Levy's options will be treated as if his employment had been terminated by EMI without cause with the result that they may be exercised without regard to performance conditions, but the exercise period will be limited to six months. A termination resulting from Mr Levy's death or disability will be treated in the same manner as a termination by the Company without cause.

Remuneration Report
continued

Pensions

The UK-based Executive Directors are executive members of the UK EMI Group Pension Fund, which provides them, on normal retirement at age 60, with a pension of 1/60th of the 'cap' (see below) for each year of membership. Members contribute 4% of the cap. On death there is a spouse's pension of two thirds of the member's pension (ignoring the impact of any exchange of pension for a lump sum on retirement), plus child allowances if applicable. An early retirement pension may be paid on leaving but the pension is reduced by 1/3% for each month that pension starts earlier than age 60. Subject to the Company's (the Committee's in the case of Executive Directors) consent, the reduction applied may be less.

Transfer values are calculated on a basis that assumes the pension would be drawn at the earliest date where no reduction would apply and with allowance for future pension increases (both before and after pension commences) to reflect the past practice of granting increases greater than those guaranteed.

Up to age 65, the whole of a pension in payment is guaranteed to increase by LPI (the lower of the previous year's increase in the Retail Prices Index and 5%). After age 65, the pension in excess of the Guaranteed Minimum Pension or 'GMP' (that part of the pension which replaces the State Earnings Related Pension) is guaranteed to increase by LPI, while that part of the GMP which built up since 6 April 1988 is guaranteed to increase by the lower of the previous year's increase in the Retail Prices Index and 3%.

The table below sets out the transfer value at 31 March 2003 of each Executive Director's accrued deferred pension at that date as well as the movement in that transfer value over the period. The transfer values are liabilities of the EMI Group Pension Fund and reflect both the age of the Executive Director and his length of service and membership of the fund.

	Age at 31.3.03 Years	Accrued pension[a] at 31.3.03 £pa	Accrued pension[a] at 1.4.02 £pa	Increase in accrued pension during the year net of inflation[a] £pa	Transfer value of accrued pension[b] at 31.3.03 £	Transfer value of accrued pension[b] at 1.4.02 £	Directors' contributions during the year £	Increase in tranfer value over the year net of Directors' contributions £pa
Executive Directors:								
E L Nicoli	52	6,345	4,637	1,629	78,192	66,703	3,888	7,601
A M J I Levy	56	2,295	663	1,621	38,238	11,044	3,888	23,306

[a] The accrued pensions are the amounts which would be paid if the Director left service at the relevant date.

[b] The transfer values have been calculated in accordance with guidance note GN11 published by the Institute of Actuaries and Faculty of Actuaries.

For those joining the EMI Group Pension Fund after 31 May 1989, the 'cap' (as defined in the Finance Act 1989) limits salary for pension purposes to £99,000 from 6 April 2003 (2002: £97,200). The Company, therefore, makes contributions to a separate defined contribution plan that provides additional benefits to those affected by the cap. Executive Directors affected by the cap and the after-tax value of contributions, expressed as a percentage of base salary in excess of the cap, which the Company paid to the defined contribution plan in respect of them, were:

E L Nicoli	33.42%
A M J I Levy	30.00%

Contributions in the year to 31 March 2003

	FURBS[a] £	Tax compensation £	Total £
Executive Directors:			
E L Nicoli	192,000	128,000	320,000
A M J I Levy	175,380	116,920	292,300

[a] Funded unapproved retirement benefits scheme

These contributions are set at levels which, based on actuarial advice, are likely to deliver comparable benefits to the capped final salary element.

The table below sets out the contributions made to US money purchase pension arrangements in respect of the other two Executive Directors.

	Contributions by Group %	Contributions by Group US$	Contributions by Director %	Contributions by Director US$	Total US$
Executive Directors:					
M N Bandier	33.4% of pay[a]	1,782,934	6% of pay[a]	320,287	2,103,221
R C Faxon	50% of base salary	383,013	14% of base salary	107,243	490,256

[a] Consistent with US practice, pay for this purpose includes the value of annual cash bonuses.

There were no retirement benefits paid to former Directors in excess of those to which they became entitled when such benefits first became payable to such former Directors.

Compensation to former Directors not previously reported
There were no compensation payments made to former Directors that have not been previously reported.

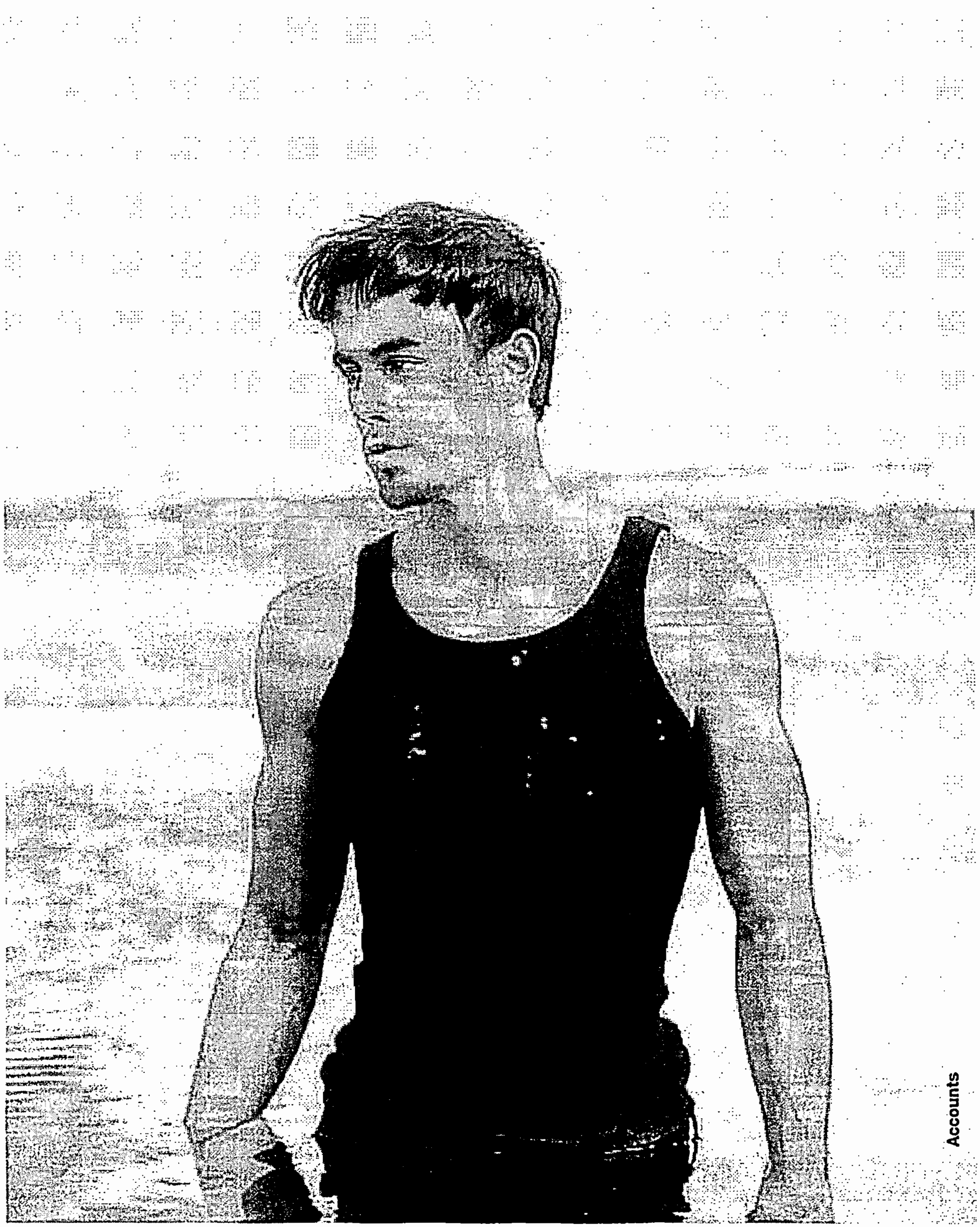
Payments to third parties for making the Directors' services available
No payments have been made to third parties for making any Directors' services available to the Company.

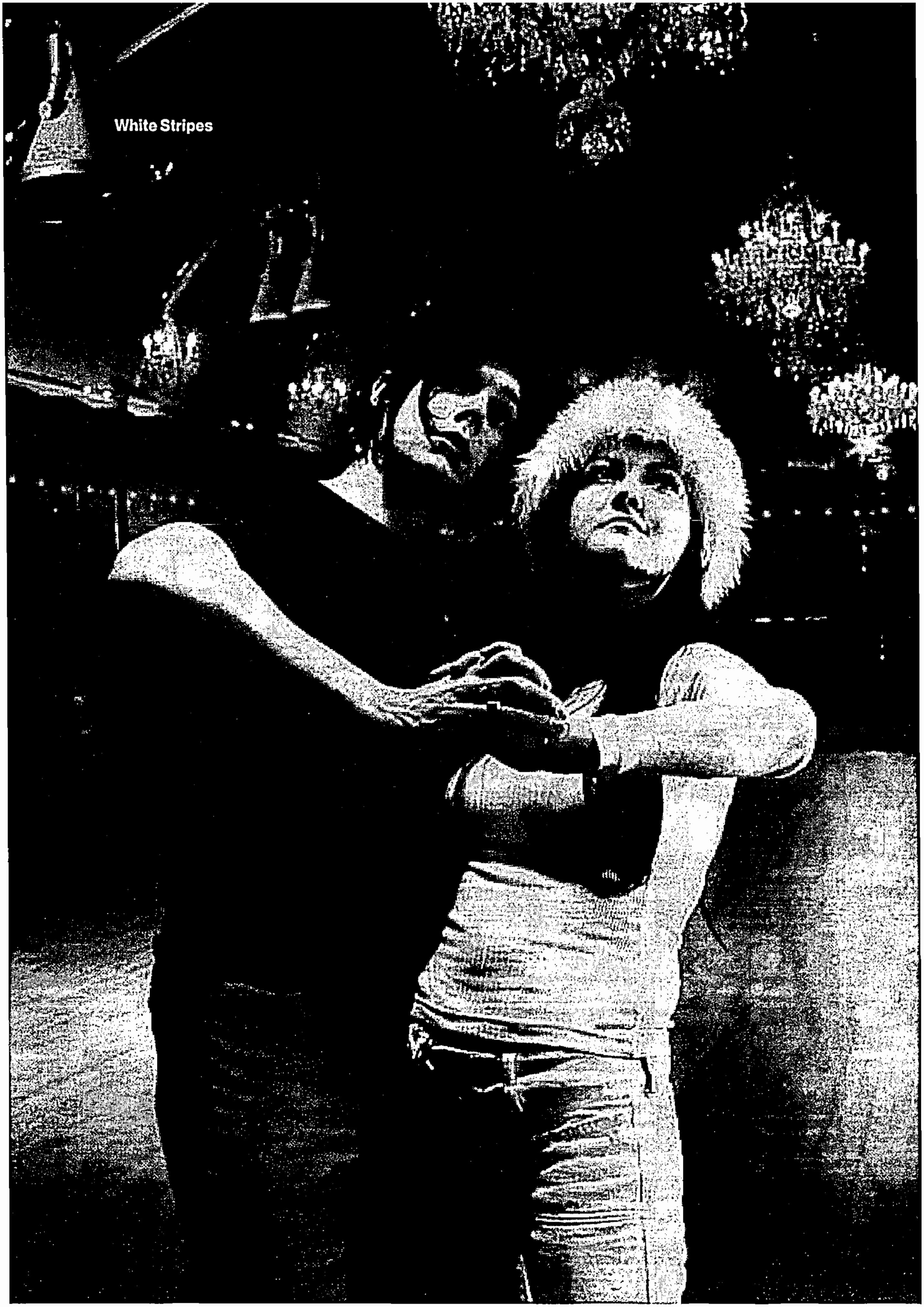
As required by the Directors' Remuneration Report Regulations, only those items on pages 50 to 54 inclusive have been subject to audit.

By Order of the Board

Sir Dominic Cadbury
Deputy Chairman
16 May 2003

Enrique Iglesias




White Stripes

Auditor's Report

Independent Auditor's Report to the members of EMI Group plc
We have audited the Group's financial statements for the year ended 31 March 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 34. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor
The Directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, unaudited part of the Directors' Remuneration Report, Chairman's Statement, Operating Reviews, Financial Review and Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2003 and of the profit of the Group for the year then ended; and the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
19 May 2003

Consolidated Profit and Loss Account

for the year ended 31 March 2003

	Notes	Total £m	Joint venture HMV Group plc Discontinued £m
Turnover:			
Total (including joint venture)		2,240.9	65.5
Less: joint venture turnover		(65.5)	(65.5)
Group turnover	1	2,175.4	–
Cost of sales	2	(1,376.7)	–
Gross profit		798.7	–
Distribution costs	2	(98.7)	–
Administration expenses	2	(544.7)	–
Other operating income, net	2	31.1	–
Group operating profit (loss)	1&3	186.4	–
Share of operating profit in joint venture before exceptional items		0.4	0.4
Share of operating exceptional items in joint venture		–	–
Share of operating profit in joint venture		0.4	0.4
Share of operating profits (losses) in associated undertakings		0.1	–
Total operating profit (loss)		186.9	0.4
Non-operating exceptional items	9	209.7	–
Profit (loss) before finance charges		396.6	0.4
Finance charges:			
Group (including associated undertakings)		(76.1)	–
Joint venture before exceptional items		(1.2)	(1.2)
Joint venture – exceptional items		–	–
Joint venture		(1.2)	(1.2)
Total finance charges	6	(77.3)	(1.2)
Profit (loss) on ordinary activities before taxation		319.3	(0.8)
Taxation on profit on ordinary activities	7	(83.2)	0.3
Profit (loss) on ordinary activities after taxation		236.1	(0.5)
Minority interests (equity)		(6.4)	–
Profit (loss) attributable to members of the Holding Company		229.7	(0.5)
Dividends (equity)	8	(62.8)	
Transfer to (from) profit and loss reserve		166.9	

Year ended 31 March 2003		Year ended 31 March 2002			
EMI Group (excluding HMV Group plc)		EMI Group (excluding HMV Group plc)		Joint venture HMV Group plc	Total
Exceptional items (Note 9) and amortisation Continuing £m	Before exceptional items and amortisation Continuing £m	Before exceptional items and amortisation £m	Exceptional items (Note 9) and amortisation £m	£m	£m
–	2,175.4	2,445.8	–	707.9	3,153.7
–	–	–	–	(707.9)	(707.9)
–	2,175.4	2,445.8	–	–	2,445.8
(45.5)	(1,331.2)	(1,592.7)	(133.8)	–	(1,726.5)
(45.5)	844.2	853.1	(133.8)	–	719.3
–	(98.7)	(119.9)	(7.6)	–	(127.5)
(15.8)	(528.9)	(577.4)	(131.5)	–	(708.9)
(6.3)	37.4	35.1	(19.0)	–	16.1
(67.6)	254.0	190.9	(291.9)	–	(101.0)
				44.6	44.6
				(10.3)	(10.3)
–	–	–	–	34.3	34.3
(0.1)	0.2	(1.1)	(1.8)	–	(2.9)
(67.7)	254.2	189.8	(293.7)	34.3	(69.6)
209.7	–	–	–	–	–
142.0	254.2	189.8	(293.7)	34.3	(69.6)
–	(76.1)	(60.4)	–	–	(60.4)
				(20.7)	(20.7)
				(2.1)	(2.1)
–	–	–	–	(22.8)	(22.8)
–	(76.1)	(60.4)	–	(22.8)	(83.2)
142.0	178.1	129.4	(293.7)	11.5	(152.8)
(38.4)	(45.1)	(38.6)	7.8	(7.4)	(38.2)
103.6	133.0	90.8	(285.9)	4.1	(191.0)
3.9	(10.3)	(15.2)	6.7	–	(8.5)
107.5	122.7	75.6	(279.2)	4.1	(199.5)
					(62.2)
					(261.7)

Balance Sheets
at 31 March 2003

	Notes	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Music copyrights	11	**451.2**	518.2	**–**	–
Goodwill	12	**56.2**	34.0	**–**	–
Tangible fixed assets	13	**289.4**	277.3	**25.6**	13.6
Investments: subsidiary undertakings	14	**–**	–	**2,152.7**	2,386.7
Investments: joint venture (HMV Group plc)	14	**–**	–	**–**	96.5
Investments: associated undertakings	14	**6.7**	7.1	**0.6**	0.6
Other fixed asset investments	14	**15.5**	22.4	**0.2**	0.2
Investments: own shares	15	**7.3**	13.1	**7.3**	13.1
		826.3	872.1	**2,186.4**	2,510.7
Current assets					
Stocks	16	**36.4**	43.0	**–**	–
Debtors: amounts falling due within one year	17	**816.7**	763.7	**2,141.0**	1,176.1
Debtors: amounts falling due after more than one year	17	**138.6**	133.8	**1.5**	0.6
Deferred taxation	23	**14.6**	17.1	**–**	–
Investments: liquid funds	18	**0.5**	0.7	**–**	–
Cash at bank and in hand and cash deposits	18	**100.2**	85.7	**0.6**	6.5
		1,107.0	1,044.0	**2,143.1**	1,183.2
Creditors: amounts falling due within one year					
Borrowings	18	**(38.5)**	(771.0)	**–**	–
Other creditors	21	**(1,365.0)**	(1,297.1)	**(124.4)**	(78.2)
		(1,403.5)	(2,068.1)	**(124.4)**	(78.2)
Net current (liabilities) assets		**(296.5)**	(1,024.1)	**2,018.7**	1,105.0
Total assets less current liabilities		**529.8**	(152.0)	**4,205.1**	3,615.7
Creditors: amounts falling due after more than one year					
Borrowings	18	**(922.0)**	(373.3)	**(322.8)**	–
Other creditors	22	**(58.1)**	(27.4)	**(741.2)**	(597.0)
		(980.1)	(400.7)	**(1,064.0)**	(597.0)
Provisions for liabilities and charges					
Deferred taxation	23	**(5.5)**	(3.4)	**–**	–
Other provisions	24	**(104.4)**	(173.1)	**(6.6)**	(10.4)
Investments: joint venture (HMV Group plc)	14				
Share of gross assets		**–**	203.3	**–**	–
Share of gross liabilities		**–**	(363.2)	**–**	–
		–	(159.9)	**–**	–
		(109.9)	(336.4)	**(6.6)**	(10.4)
		(560.2)	(889.1)	**3,134.5**	3,008.3
Capital and reserves					
Called-up share capital	25	**110.4**	110.4	**110.4**	110.4
Share premium account	25	**445.8**	445.8	**445.8**	445.8
Capital redemption reserve	26	**495.8**	495.8	**495.8**	495.8
Other reserves	26	**256.0**	256.0	**435.6**	436.4
Profit and loss reserve (including goodwill previously written off)	26	**(2,001.1)**	(2,338.2)	**1,646.9**	1,519.9
Equity shareholders' funds		**(693.1)**	(1,030.2)	**3,134.5**	3,008.3
Minority interests (equity)	27	**132.9**	141.1	**–**	–
		(560.2)	(889.1)	**3,134.5**	3,008.3

Eric Nicoli
Roger Faxon
Directors
19 May 2003

Statement of Total Recognised Gains and Losses
for the year ended 31 March 2003

	£m	2003 £m	£m	2002 £m
Profit (loss) for the financial year				
Group		**230.1**		(202.0)
Joint venture		**(0.5)**		4.1
Associated undertakings		**0.1**		(1.6)
Profit (loss) for the financial year		**229.7**		(199.5)
Currency translation – Group*	**(13.5)**		(6.5)	
Currency translation – joint venture and associated undertakings	**–**		0.5	
Other recognised losses		**(13.5)**		(6.0)
Total recognised gains and losses relating to the year		**216.2**		(205.5)

* Net currency gains of £7.6m (2002: £1.5m), which relate to foreign currency borrowings to finance investment overseas, and the related tax charge of £nil (2002: £nil), have been included within the Group currency translation movement on reserves.

Reconciliation of Movements in Shareholders' Funds
for the year ended 31 March 2003

	£m	2003 £m	£m	2002 £m
Opening shareholders' funds		**(1,030.2)**		(776.2)
Profit (loss) for the financial year	**229.7**		(199.5)	
Dividends (equity)	**(62.8)**		(62.2)	
Other recognised losses	**(13.5)**		(6.0)	
Goodwill adjustments	**183.7**		9.9	
Share of joint venture reserves adjustment	**–**		3.6	
Shares issued	**–**		0.2	
Net increase (decrease) in shareholders' funds for the year		**337.1**		(254.0)
Closing shareholders' funds		**(693.1)**		(1,030.2)

Consolidated Cash Flow Statement
for the year ended 31 March 2003

	Notes	2003 £m	2002 £m
Net cash inflow from operating activities		**117.2**	211.9
Dividends received from associated undertakings	14	**0.1**	0.7
Returns on investments and servicing of finance			
Interest received		**8.3**	10.3
Interest paid	19 (viii)	**(12.8)**	(68.8)
Interest element of finance lease payments		**(0.1)**	(0.2)
Dividends paid to minorities		**(6.5)**	(3.3)
Net cash outflow from returns on investments and servicing of finance		**(11.1)**	(62.0)
Tax paid		**(38.7)**	(22.3)
Capital expenditure and financial investment			
Purchase of music copyrights	11	**(7.6)**	(10.6)
Sale of music copyrights		**1.2**	–
Purchase of tangible fixed assets	13	**(68.5)**	(39.2)
Sale of tangible fixed assets		**9.3**	10.1
Purchase of investments: own shares	15	**(0.8)**	(1.9)
Purchase of fixed asset investments	14	**(10.4)**	–
Sale of fixed asset investments		**35.6**	0.1
Purchase of associated undertakings	14	**(1.8)**	(3.6)
Loans repaid by associated undertakings	14	**0.7**	0.8
Disposal of associated undertakings		**2.2**	1.9
Net cash outflow from capital expenditure and financial investment		**(40.1)**	(42.4)
Acquisitions and disposals			
Purchase of businesses net of cash acquired	31	**(22.4)**	(22.6)
Disposal of holding in HMV Group	31	**209.5**	–
Deferred consideration paid		**(1.0)**	(1.4)
Disposal of subsidiary undertaking	31	**(0.7)**	–
Net cash inflow (outflow) from acquisitions and disposals		**185.4**	(24.0)
Equity dividends paid		**(29.4)**	(125.3)
Net cash inflow (outflow) before management of liquid resources and financing		**183.4**	(63.4)
Issue of Ordinary Share capital		**–**	0.2
Management of liquid resources	20	**1.1**	5.1
Financing:			
New loans	20	**603.5**	460.3
Loans repaid	20	**(757.5)**	(458.6)
Capital element of finance leases repaid	20	**(0.9)**	(1.1)
Net cash (outflow) inflow from management of liquid resources and financing		**(153.8)**	5.9
Increase (decrease) in cash	20	**29.6**	(57.5)

Reconciliation of Group operating profit (loss) to net cash inflow from operating activities

	Notes	2003 £m	2002 £m
Group operating profit (loss)		**186.4**	(101.0)
Depreciation charge	13	**43.0**	51.0
Amortisation charge:			
Music copyrights	11	**39.0**	43.5
Goodwill	12	**3.7**	6.0
Fixed asset write-down		**–**	1.1
Goodwill write-down – subsidiaries	12	**12.1**	29.3
Goodwill write-down – associated undertakings	14	**–**	8.5
Music copyrights write-down	11	**6.5**	–
Current asset investment write-down		**2.5**	–
Investments: own shares write-down	15	**3.8**	–
Associated undertaking write-down	14	**–**	7.0
Amounts provided	24	**9.7**	107.2
Provisions utilised:			
Disposals and fundamental reorganisations	24	**(1.6)**	(12.5)
Other	24	**(83.7)**	(16.9)
(Increase) decrease in working capital:			
Stock		**2.4**	2.6
Debtors		**(94.8)**	63.9
Creditors		**(11.8)**	22.2
Net cash inflow from operating activities		**117.2**	211.9

Accounting Policies

Basis of preparation
The consolidated financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The results for the years ended 31 March 2003 and 31 March 2002 represent continuing operations except the joint venture (HMV Group plc).

Basis of consolidation
The consolidated financial statements comprise the accounts of the Company and its subsidiaries. The results of all subsidiaries are taken from their accounts made up to 31 March. The results of subsidiaries, joint ventures and associated undertakings disposed of or acquired during the year are included up to, or from, the date that control passes.

Changes in financial reporting standards
Transitional arrangements for FRS17–*Retirement Benefits* continue to be adopted by the Group (see Note 30).

Foreign currencies
Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of profit for the financial year.

On consolidation, average exchange rates have been used to translate the results of overseas subsidiaries, joint ventures and associated undertakings. The assets and liabilities of overseas subsidiaries and associated undertakings are translated into sterling at year-end rates.

Exchange differences arising from the retranslation at year-end exchange rates of:
(i) the opening net investment in overseas subsidiaries, joint ventures and associated undertakings and foreign currency borrowings in so far as they are matched by those overseas investments; and
(ii) the results of overseas subsidiaries, joint ventures and associated undertakings,
are dealt with in Group reserves.

Turnover
Turnover represents the invoiced value or contracted amount of goods and services supplied by the Company and its subsidiaries. Turnover excludes value added tax and similar sales-related taxes.

Pension costs
Pension costs, which are determined in accordance with SSAP24 –*Accounting for pension costs*, are charged to the profit and loss account so as to spread the cost of pensions over the working lives of the employees within the Group. Valuation surpluses or deficits are amortised over the expected remaining working life within the Group of the relevant employees (estimated to be eight years in respect of the UK). The amortisation of valuation surpluses is restricted to an amount equal to the regular pension cost. Accordingly, employer expense in respect of the main scheme, which covers employees in the UK, has been taken as £nil for each of the two years ended 31 March 2003 for reasons of conservatism.

Joint ventures and associated undertakings
Where the Group has an investment in an entity which is sufficient to give the Group a participating interest, and over which it is in a position to exercise significant influence, the entity is treated as an associated undertaking and is accounted for using the equity method. Entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and one or more other parties under a contractual arrangement, are treated as joint ventures and are accounted for using the gross equity method.

The results of joint ventures and associated undertakings are taken from their accounts made up to 31 March or such earlier date (not prior to 31 December) which represents their financial period end, as adjusted for material items that have occurred in the intervening period.

Goodwill and other intangibles
Goodwill and catalogue intangibles arising on acquisitions made after 31 March 1998 are capitalised and amortised over their expected useful life, principally restricted to 20 years, in accordance with FRS10 - *Goodwill and intangible assets*. They are reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill arising on acquisitions made before 31 March 1998 has been charged directly against shareholders' funds in the year of acquisition and is included within the profit and loss reserve, yet separately identified within the reserves note. This goodwill will remain in reserves until, on the disposal or closure of any business, the profit and loss account includes a charge in respect of the goodwill previously written off against shareholders' funds on the acquisition of the business.

Music copyrights
Music copyrights purchased prior to 1 April 1989 were written off against shareholders' funds on acquisition. Copyrights acquired as a result of acquisitions on or after 1 April 1989 are capitalised as intangible assets in the Group balance sheet, and are amortised by equal annual amounts over not more than 20 years, other than in exceptional circumstances when sufficient ongoing impairment tests can be performed to support a useful economic life of over 20 years. Where a useful economic life of up to 20 years has been adopted, copyrights are reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Advances to artists
Advances to artists and repertoire owners are assessed and the value of the unrecouped portion to be included in debtors is determined by the prospects of future recoupment, based on past sales performance, current popularity and projected sales.

Leased assets
Assets held under finance leases are included as tangible fixed assets at their estimated purchase cost and depreciated over their expected useful lives, or over the primary lease period, whichever is shorter. The obligations relating to finance leases (net of finance charges allocated to future periods) are included under borrowings due within or after one year, as appropriate. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the lease term.

Depreciation of tangible fixed assets
Depreciation of tangible fixed assets is calculated on cost at rates estimated to write off the cost, less the estimated residual value of the relevant assets, by equal annual amounts over their expected useful lives; effect is given, where necessary, to commercial and technical obsolescence.

The annual rates used are:

Freehold buildings and long-term leasehold property	2%
Short-term leasehold property	Period of lease
Plant, equipment and vehicles	10–33⅓%

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks
Stocks and work in progress are stated at the lower of cost and net realisable value, less progress payments on uncompleted contracts and provisions for expected losses. Cost includes manufacturing overheads where appropriate.

Taxation
The Company has undertaken to discharge the liability to corporation tax of the majority of its wholly owned UK subsidiaries. Their UK tax liabilities are therefore dealt with in the accounts of the Company.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more tax, or right to pay less, or to receive more, tax, with the following exceptions:
- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets.
- Provision is made for gains which have been rolled over into replacement assets only to the extent that, at the balance sheet date, there is a commitment to dispose of the replacement assets.
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Financial instruments
Any premium or discount associated with the purchase of interest rate instruments is amortised over the life of the transaction. Interest receipts and payments are accrued to match the net income or cost with the related finance expense. No amounts are recognised in respect of future periods.

If a swap is unwound early, the gain or loss is spread over the remaining life of the original instrument.

New media holdings
Holdings in new media companies that arise as a consequence of licensing, distribution and other similar deals with such companies, are carried at cost less provision for diminution in value. The carrying value at 31 March 2003 was £6.4m (2002: £5.6m). Income from these holdings, net of costs, is only recognised when received as cash and is treated as other operating income. The costs relating to these investments are held within debtors until they are recognised with the related income.

1. Segmental analyses

	2003 Turnover £m	2003 Operating profit £m	2003 Operating assets £m	2003 Average employees No.	2002 Turnover £m	2002 Operating profit £m	2002 Operating assets £m	2002 Average employees No.
By class of business:								
Recorded Music	**1,774.2**	**150.5**	**180.6**	**7,439**	2,029.4	83.1	44.4	8,644
Music Publishing	**401.2**	**103.5**	**409.2**	**649**	416.4	107.8	453.9	626
HMV Group plc – discontinued	**n/a**	**n/a**	**–**	**n/a**	n/a	n/a	(162.9)	n/a
Group*	**2,175.4**	**254.0**	**589.8**	**8,088**	2,445.8	190.9	335.4	9,270
Operating exceptional items and amortisation†		**(67.6)**				(291.9)		
Group operating profit (loss)*		**186.4**				(101.0)		
By origin:								
United Kingdom	**330.9**	**69.1**	**76.8**	**1,162**	338.9	59.4	(113.1)	1,423
Rest of Europe	**660.5**	**88.6**	**6.5**	**2,510**	732.0	98.7	(13.1)	2,765
Latin America	**51.0**	**(2.5)**	**7.4**	**324**	88.1	(2.8)	3.1	422
North America	**706.1**	**68.3**	**376.9**	**2,573**	826.3	(2.1)	333.7	2,923
Asia Pacific	**409.9**	**27.6**	**116.2**	**1,382**	439.8	33.6	118.6	1,522
Other	**17.0**	**2.9**	**6.0**	**137**	20.7	4.1	6.2	215
Group*	**2,175.4**	**254.0**	**589.8**	**8,088**	2,445.8	190.9	335.4	9,270
By destination:								
United Kingdom	**316.8**				337.4			
Rest of Europe	**675.3**				726.9			
Latin America	**46.3**				88.9			
North America	**707.4**				828.6			
Asia Pacific	**406.7**				440.6			
Other	**22.9**				23.4			
Group*	**2,175.4**				2,445.8			

* Group turnover and operating profit (loss) excludes the Group's share of amounts relating to the joint venture (HMV Group plc), which was discontinued on 15 May 2002, and associated undertakings. Amounts relating to the joint venture have been excluded due to non-coterminous period ends.

† Comprises operating exceptional items of £(24.9)m (2002: £(242.4)m) and amortisation of goodwill and music copyrights of £(42.7)m (2002: £(49.5)m). The split of operating exceptional items and amortisation of goodwill and music copyrights is as follows:

By class of business:	2003 £m	2002 £m
Recorded Music	(24.2)	(235.1)
Music Publishing	(43.4)	(56.8)
Group	(67.6)	(291.9)

By origin:	2003 £m	2002 £m
United Kingdom	(16.3)	(19.2)
Rest of Europe	(12.1)	(53.3)
Latin America	(0.1)	(22.2)
North America	(38.4)	(176.0)
Asia Pacific	(0.4)	(19.0)
Other	(0.3)	(2.2)
Group	(67.6)	(291.9)

The reconciliation of operating assets to net liabilities is as follows:

	Note	2003 £m	2002 £m
Operating assets		**589.8**	335.4
Tax, dividends and net interest payable		**(290.2)**	(166.6)
Capital employed		**299.6**	168.8
Net borrowings	18	**(859.8)**	(1,057.9)
Net liabilities		**(560.2)**	(889.1)

2. Analysis of profit and loss account

	2003 £m	2002 £m
Cost of sales	**1,376.7**	1,726.5
Cost of sales is analysed as:		
– normal	**1,331.2**	1,592.7
– exceptional items and music copyright amortisation	**45.5**	133.8
Net operating expenses:		
Distribution costs	**98.7**	127.5
Administration expenses	**544.7**	708.9
Other operating income, net	**(31.1)**	(16.1)
	612.3	820.3
Net operating expenses are analysed as:		
– normal	**590.2**	662.2
– exceptional items and goodwill amortisation	**22.1**	158.1

Other operating income principally comprises the Group's share of income from joint marketing arrangements, income from disposal of investments entered into to support distribution, manufacturing and product supply arrangements, net patent income and income from new media investments.

3. Group operating profit (loss)

	2003 £m	2002 £m
Operating profit (loss) is stated after charging:		
Amortisation of music copyrights	**39.0**	43.5
Amortisation of goodwill	**3.7**	6.0
Depreciation of tangible fixed assets	**43.0**	51.0
Operating lease rentals:		
Property	**23.6**	25.3
Plant, equipment and vehicles	**3.4**	4.7
Research and development expenditure	**0.1**	0.2

4. Fees to auditors

	2003 £m	2002 £m
Audit fees paid to Ernst & Young	**2.2**	2.1
Audit fees paid to other firms	**0.1**	0.1
Other fees paid to Ernst & Young:		
UK	**0.6**	0.3
Non-UK	**0.8**	1.2
Total	**3.7**	3.7

Other fees include £0.8m (2002: £0.7m) paid to Ernst & Young for tax compliance and planning services and £0.6m (2002: £0.8m) for regulatory and other assurance.

5. Directors' and employees' costs

	2003 £m	2002 £m
Wages and salaries	**331.5**	390.0
Social security costs	**46.1**	52.0
Other pension costs (see Note 30)	**12.8**	13.9
Total	**390.4**	455.9

Details of each Director's remuneration, compensation for loss of office, pension entitlements, long-term incentive scheme interests and share options are included in the Remuneration Report.

Notes to the Financial Statements
continued

6. Finance charges

	£m	2003 £m	£m	2002 £m
Interest payable on:				
Bank overdrafts and loans	**61.8**		55.9	
Other	**18.6**		15.0	
		80.4		70.9
Interest receivable on:				
Bank balances	**(2.3)**		(2.7)	
Other	**(2.0)**		(7.8)	
		(4.3)		(10.5)
Group finance charges (including associated undertakings)		**76.1**		60.4
Joint venture finance charges (HMV Group plc)		**1.2**		22.8
Total finance charges		**77.3**		83.2

In the year to 31 March 2002, other interest payable of £15.0m included a non-periodic cost of £3.6m, being arrangement and underwriting fees paid in respect of the new £1.3bn bank facility signed on 18 March 2002.

The Group holds various financial instruments in order to manage interest rate risk. Details of those financial instruments held at the year end are given in Note 19(viii).

Finance charges for associated undertakings are £nil (2002: £nil).

7. Taxation

	2003 £m	2002 £m
(i) Analysis of tax charge in the year		
Current tax:		
UK corporation tax	**37.7**	10.8
Advance corporation tax written back on ordinary activities	**–**	(20.6)
Double taxation relief	**(4.9)**	(6.7)
	32.8	(16.5)
Withholding tax	**8.5**	12.1
Other foreign tax	**49.4**	36.4
Adjustments in respect of prior years	**(11.5)**	(4.3)
Joint venture	**(0.3)**	7.4
Total current tax	**78.9**	35.1
Deferred tax:		
Origination and reversal of timing differences	**4.2**	2.6
Others:		
Associated undertakings	**0.1**	0.5
Tax on profit on ordinary activities	**83.2**	38.2
(ii) Factors affecting current tax charge for year		
Profit (loss) on ordinary activities before tax	**319.3**	(152.8)
Tax at weighted average rate	**118.1**	(59.6)
Effects of:		
Expenses not deductible for tax purposes	**4.1**	43.4
Timing differences	**(3.9)**	(6.0)
Utilisation of tax losses and other credits	**(49.8)**	(36.3)
Origination of tax losses	**6.8**	85.8
Withholding tax and prior years adjustments	**3.6**	7.8
Current tax for the year	**78.9**	35.1

The weighted average tax rate is calculated by applying statutory tax rates to actual taxable profits and losses in the countries of operation.

(iii) Factors that may affect future tax charges
No provision has been made for deferred tax where potentially taxable gains have been rolled over into replacement assets, except where there is a commitment to dispose of these assets. Such gains would only become taxable if the assets were sold without it being possible to claim roll-over relief or offset existing capital losses. The Group does not expect any such tax to become payable in the foreseeable future.

No deferred tax has been recognised in respect of tax on gains arising from the revaluation of fixed assets, as the Group is not committed to the disposal of these assets. No deferred tax has been recognised in respect of the earnings of overseas subsidiaries as no dividends have been accrued.

Deferred tax assets which have not been recognised are tax losses and credits with a value of £112.1m, depreciation in advance of capital allowances with a value of £10.1m, and other timing differences with a value of £100.1m, as there is insufficient certainty as to the availability of future taxable profits.

8. Dividends (equity)

	2003 Per share	2002 Per share	2003 £m	2002 £m
Ordinary dividends (net):				
Interim	**2.00p**	4.25p	**15.8**	33.5
Adjustment to 2003 and 2002 interim	**–**	–	**–**	(0.2)
Proposed final	**6.00p**	3.75p	**47.2**	29.6
Adjustment to 2002 and 2001 final	**–**	–	**(0.2)**	(0.7)
Total	**8.00p**	8.00p	**62.8**	62.2

Subject to the approval of shareholders, the final dividend of 6.00p per share will be paid on 3 October 2003 to shareholders on the register at the close of business on 5 September 2003.

9. Exceptional items

(i) Operating exceptional items

	2003 £m	2002 £m
Release of overprovision for reorganisation costs charged in prior year	**6.0**	–
Restructuring and reorganisation costs:		
Headcount reduction	**(6.0)**	(93.7)
Roster reduction**	**–**	(69.4)
Impact of economic downturn in Latin America***	**–**	(16.7)
Restructuring of satellite label activity****	**–**	(40.5)
Asset impairment and other*	**(24.9)**	(22.1)
Total	**(24.9)**	(242.4)

* Including write-downs of music copyrights (£6.5m), goodwill (£12.1m), current asset investments (£2.5m) and investments own shares (£3.8m) in 2003. Including goodwill (£5.7m) and relocation and other costs (£16.4m) in 2002.
** Includes £39.3m relating to the termination of the recording contract with Mariah Carey.
*** Resulted in significantly increased returns and bad debts.
**** Including goodwill (£23.6m) and associate investment (£15.5m) write-offs.

Assets have been written down to their net realisable value or to a discounted cash flow projection. Average discount rates of 10% have been applied in the impairment reviews completed during the year. The discount rates used are appropriate to the assets being valued.

The attributable taxation credit relating to operating exceptional items is £nil (2002: £7.8m).

(ii) Non-operating exceptional items

	2003 £m	2002 £m
Profit on sale of holding in HMV Group plc, including goodwill of £262.5m (Note 31(ii))	**215.2**	–
Loss on sale of subsidiary undertaking, including goodwill of £8.4m (Note 31(iii))	**(25.2)**	–
Net gain (provision for loss) on sale of fixed assets*	**19.7**	–
Total	**209.7**	–

The attributable taxation charge relating to non-operating exceptional items is £38.4m (2002: £nil).

* Including a provision for loss on disposal of £(1.8)m and a gain on sale of Viva Media AG of £28.0m.

Notes to the Financial Statements
continued

10. Earnings per Ordinary Share

	2003	2002
Basic earnings per Ordinary Share is calculated as follows:		
Earnings	**£229.7m**	£(199.5)m
Weighted average number of Ordinary Shares in issue	**784.0m**	782.8m
Earnings per Ordinary Share	**29.3p**	(25.5)p
Diluted earnings per Ordinary Share is calculated as follows:		
Earnings	**£229.7m**	£(199.5)m
Adjusted weighted average number of Ordinary Shares	**784.4m**	783.6m
Earnings per Ordinary Share	**29.3p**	(25.5)p
Adjusted basic earnings per Ordinary Share is calculated as follows:		
Adjusted earnings	**£122.2m**	£92.1m
Weighted average number of Ordinary Shares in issue	**784.0m**	782.8m
Adjusted earnings per Ordinary Share	**15.6p**	11.8p
Adjusted diluted earnings per Ordinary Share is calculated as follows:		
Adjusted earnings	**£122.2m**	£92.1m
Adjusted weighted average number of Ordinary Shares	**784.4m**	783.6m
Adjusted earnings per Ordinary Share	**15.6p**	11.8p

Adjusted earnings are included as they provide a better understanding of the underlying trading performance of the Group on a normalised basis.

Reconciliation of adjusted earnings

	Year ended 31 March 2003		Year ended 31 March 2002	
	£m	Per share	£m	Per share
Earnings/basic EPS	**229.7**	**29.3p**	(199.5)	(25.5)p
Adjustments:				
Operating exceptional items	**24.9**	**3.2p**	242.4	31.0p
Non-operating exceptional items	**(209.7)**	**(26.8)p**	–	–
Share of operating exceptional items in joint venture	**–**	**–**	10.3	1.3p
Share of exceptional finance charges in joint venture	**–**	**–**	2.1	0.3p
Amortisation of goodwill and music copyrights	**42.8**	**5.5p**	51.3	6.5p
Attributable taxation to non-operating exceptional items	**38.4**	**4.9p**	(7.8)	(1.0)p
Minority interest (re music copyright amortisation)	**(3.9)**	**(0.5)p**	(4.3)	(0.5)p
Minority interest (re operating exceptional items)	**–**	**–**	(5.3)	(0.7)p
Minority interest (re attributable taxation)	**–**	**–**	2.9	0.4p
Adjusted earnings/adjusted EPS	**122.2**	**15.6p**	92.1	11.8p
Adjusted dilution impact	**n/a**	**–**	n/a	–
Adjusted earnings/adjusted diluted EPS	**122.2**	**15.6p**	92.1	11.8p

The adjusted weighted average number of Ordinary Shares used in the diluted earnings per share calculations, 784.4m (2002: 783.6m), is the weighted average number of Ordinary Shares in issue, 784.0m (2002: 782.8m), plus adjustments for dilutive share options, 0.4m (2002: 0.8m).

11. Music copyrights

Group

	£m
Cost at 31 March 2002	864.0
Currency retranslation	(66.6)
Acquisition of businesses	8.6
Additions	7.6
Disposals	(2.9)
Reclassification	0.5
Cost at 31 March 2003	**811.2**
Amortisation at 31 March 2002	345.8
Currency retranslation	(30.4)
Charge for year	39.0
Disposals	(1.7)
Write-down of music copyrights	6.5
Reclassification	0.8
Amortisation at 31 March 2003	**360.0**
Net book values at 31 March 2003	**451.2**
31 March 2002	518.2

12. Goodwill (capitalised)

Group

	£m
Cost at 31 March 2002	38.7
Currency retranslation	(2.2)
Acquisition of businesses	39.8
Cost at 31 March 2003	**76.3**
Amortisation at 31 March 2002	4.7
Currency retranslation	(0.4)
Write-down of goodwill	12.1
Charge for year	3.7
Amortisation at 31 March 2003	**20.1**
Net book values at 31 March 2003	**56.2**
31 March 2002	34.0

13. Tangible fixed assets

Group

	Freehold property £m	Leasehold property £m	Plant, equipment and vehicles £m	Total £m
Cost at 31 March 2002	209.1	37.3	341.6	588.0
Currency retranslation and reclassification	1.7	(3.8)	(4.5)	(6.6)
Acquisition of businesses	–	0.1	0.2	0.3
Disposal of businesses	–	–	(1.1)	(1.1)
Additions	5.5	37.8	25.2	68.5
Disposals	(7.8)	(2.8)	(25.2)	(35.8)
Cost at 31 March 2003	**208.5**	**68.6**	**336.2**	**613.3**
Depreciation at 31 March 2002	36.6	22.4	251.7	310.7
Currency retranslation and reclassification	2.8	(2.1)	(2.9)	(2.2)
Disposal of businesses	–	–	(0.9)	(0.9)
Charge for year	4.0	4.6	34.4	43.0
Disposals	(3.2)	(2.6)	(22.7)	(28.5)
Write-down of tangible fixed assets	1.8	–	–	1.8
Depreciation at 31 March 2003	**42.0**	**22.3**	**259.6**	**323.9**
Net book values at 31 March 2003	**166.5**	**46.3**	**76.6**	**289.4**
31 March 2002	172.5	14.9	89.9	277.3

Freehold property includes land having a cost of £89.1m (2002: £83.4m) which is not depreciated.

Group

	2003 £m	2002 £m
The net book values shown above include the following:		
Long-term leasehold property	**5.9**	8.1
Short-term leasehold property	**40.4**	6.8
Finance lease assets	**3.0**	3.5
Assets in the course of construction	**19.5**	7.0

Company

	Freehold property £m	Leasehold property £m	Plant, equipment and vehicles £m	Total £m
Cost at 31 March 2002	8.4	4.6	15.9	28.9
Additions	0.1	12.8	0.5	13.4
Disposals and transfers	–	–	(0.7)	(0.7)
Cost at 31 March 2003	**8.5**	**17.4**	**15.7**	**41.6**
Depreciation at 31 March 2002	1.7	1.6	12.0	15.3
Charge for year	0.2	0.1	1.0	1.3
Disposals and transfers	–	–	(0.6)	(0.6)
Depreciation at 31 March 2003	**1.9**	**1.7**	**12.4**	**16.0**
Net book values at 31 March 2003	**6.6**	**15.7**	**3.3**	**25.6**
31 March 2002	6.7	3.0	3.9	13.6

14. Fixed asset investments

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Investments comprise:				
Subsidiary undertakings	–	–	**2,152.7**	2,386.7
Joint venture (HMV Group plc)	–	–	–	96.5
Associated undertakings	**6.7**	7.1	**0.6**	0.6
Other fixed asset investments	**15.5**	22.4	**0.2**	0.2
	22.2	29.5	**2,153.5**	2,484.0
Joint venture (HMV Group plc)	–	(159.9)	–	–
	22.2	(130.4)	**2,153.5**	2,484.0
Listed investments	–	–	–	–
Unlisted investments	**22.2**	(130.4)	**2,153.5**	2,484.0
	22.2	(130.4)	**2,153.5**	2,484.0

The market value of listed investments at 31 March 2003 was £nil (2002: £nil).

(i) Investments in subsidiary undertakings

Company

	Cost of shares £m	Loans £m	Provisions £m	Net book value £m
At 31 March 2002	2,027.0	480.2	(120.5)	2,386.7
Additions	–	23.6	–	23.6
Disposals, transfers and other movements	–	(257.6)	–	(257.6)
At 31 March 2003	**2,027.0**	**246.2**	**(120.5)**	**2,152.7**

Details of significant subsidiary undertakings are set out in Note 34.

(ii) Joint venture (HMV Group plc)

Group

	Net equity investment £m	Goodwill written off £m	Share of net assets £m	Provisions* £m	Net book value £m
At 31 March 2002	103.6	(262.5)	(158.9)	(1.0)	(159.9)
Net loss	(0.5)	–	(0.5)	–	(0.5)
Disposal	(103.1)	262.5	159.4	1.0	160.4
At 31 March 2003	–	–	–	–	–

* The provision of £1.0m represented the elimination of the Group's share of unrealised profits in HMV Group plc's stocks.

Company

	Cost of shares £m	Loans £m	Provisions £m	Net book value £m
At 31 March 2002	96.5	–	–	96.5
Disposal	(96.5)	–	–	(96.5)
At 31 March 2003	–	–	–	–

The Company holds investments at cost, less provisions for diminution in value.

14. Fixed asset investments (continued)

(ii) Joint venture (HMV Group plc) (continued)
Share of net liabilities
Group

	2003 £m	2002 £m
Fixed assets	–	61.5
Current assets	–	141.8
Total assets	–	203.3
Short-term liabilities	–	(176.5)
Long-term liabilities	–	(186.7)
Total liabilities	–	(363.2)
Share of net liabilities	–	(159.9)

(iii) Associated undertakings
Group

	Net equity investment £m	Goodwill written off £m	Share of net assets £m	Capitalised goodwill £m	Loans £m	Net book value £m
At 31 March 2002	32.1	(43.4)	(11.3)	1.7	16.7	7.1
Currency retranslation	1.4	–	1.4	(0.3)	(1.4)	(0.3)
Additions* and new loans	0.4	–	0.4	1.4	–	1.8
Net profits (losses) after tax	0.1	–	0.1	(0.1)	–	–
Dividends	(0.1)	–	(0.1)	–	–	(0.1)
Disposals, provisions and loans repaid	12.9	–	12.9	–	(14.7)	(1.8)
At 31 March 2003	**46.8**	**(43.4)**	**3.4**	**2.7**	**0.6**	**6.7**

* Total consideration on purchase of associated undertakings comprises costs and loans totalling £0.4m (2002: £1.9m).

Company

	Cost of shares £m	Provisions £m	Net book value £m
At 31 March 2002	0.7	(0.1)	0.6
At 31 March 2003	**0.7**	**(0.1)**	**0.6**

The Company holds investments at cost, less provisions for diminution in value.

(iv) Other fixed asset investments

	Cost of shares £m	Provisions £m	Group Net book value £m	Cost of shares £m	Provisions £m	Company Net book value £m
At 31 March 2002	28.9	(6.5)	22.4	2.5	(2.3)	0.2
Currency retranslation	(1.4)	0.2	(1.2)	–	–	–
Additions	10.4	–	10.4	–	–	–
Disposals and reclassifications	(16.1)	–	(16.1)	–	–	–
At 31 March 2003	**21.8**	**(6.3)**	**15.5**	**2.5**	**(2.3)**	**0.2**

15. Investments: own shares

The EMI Group General Employee Benefit Trust (EBT) was established to hedge the future obligations of the Group in respect of shares awarded under the Senior Executive Incentive Plan (SEIP), the EMI Music Long-Term Incentive Plan and other share-based plans. The Trustee of the EBT, EMI Group EBT (Guernsey) Limited, purchases the Company's Ordinary Shares in the open market with financing provided by the Company, as required, on the basis of regular reviews of the anticipated share liabilities of the Group. The EBT has, since December 1998, waived any entitlement to the receipt of dividends in respect of all of its holding of the Company's Ordinary Shares. The EBT's waiver of dividends may be revoked or varied at any time.

The cost of the shares expected to be awarded under each plan is amortised over the period from the original grant of the particular award to the time of vesting. This is normally a period of not less than three years.

The carrying value of the unallocated shares held at the balance sheet date has been written-down to £1 per share to recognise the recent fall in the share price.

Group and Company	Shares held in trust No.	Nominal value £m	Cost £m	Amortisation £m	Net book value £m
At 1 April 2002	5,265,995	0.7	24.3	(11.2)	13.1
Shares purchased	295,984	–	0.8	–	0.8
Awarded by the EBT	(1,129,295)	(0.1)	(4.8)	4.8	–
Amortisation in the year	–	–	–	(2.8)	(2.8)
Write-down of investments: own shares	–	–	–	(3.8)	(3.8)
At 31 March 2003	**4,432,684**	**0.6**	**20.3**	**(13.0)**	**7.3**

At 31 March 2003, the outstanding loan by the Company to the EBT to finance the purchase of Ordinary Shares was £20.5m (2002: £24.6m). The market value at 31 March 2003 of the Ordinary Shares held in the EBT, which are listed in the UK, was £4.0m (2002: £19.0m).

16. Stocks

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Raw materials and consumables	**15.2**	13.8	**–**	–
Work in progress	**2.5**	2.5	**–**	–
Finished goods	**18.7**	26.7	**–**	–
Total	**36.4**	43.0	**–**	–

17. Debtors

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Due within one year:				
Trade debtors	**434.8**	386.7	**1.3**	1.4
Amounts owed by subsidiary undertakings	**–**	–	**2,136.9**	1,169.9
Amounts owed by associated undertakings	**0.6**	0.3	**–**	–
Amounts owed by joint venture (HMV Group plc)	**–**	13.1	**–**	–
Corporate taxation recoverable	**17.3**	14.1	**–**	–
Other debtors	**63.7**	104.9	**2.3**	3.6
Prepayments and accrued income	**300.3**	244.6	**0.5**	1.2
	816.7	763.7	**2,141.0**	1,176.1
Due after more than one year:				
Corporate taxation recoverable	**–**	2.3	**–**	–
Other debtors	**6.0**	23.9	**1.5**	0.6
Prepayments and accrued income	**132.6**	107.6	**–**	–
	138.6	133.8	**1.5**	0.6
Total	**955.3**	897.5	**2,142.5**	1,176.7

Other debtors due within one year includes £1.8m (2002: £1.5m) book value of listed investments with a market value of £2.5m (2002: £5.1m).

18. Borrowings

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Long-term borrowings				
US$500m 8.375% Guaranteed Notes*	**315.4**	350.8	–	–
8.25% Sterling Bonds**	**322.8**	–	–	–
US$155m 6.96% Senior Notes*** and US$25m 8.01% Senior Notes****	**113.9**	–	–	–
Drawings under long-term committed facilities	**166.8**	18.4	–	–
Term loan•	**3.5**	4.9	–	–
Finance leases	**1.5**	2.0	–	–
Less: repayable within one year	**(1.9)**	(2.8)	–	–
Total long-term borrowings	**922.0**	373.3	–	–
Short-term borrowings				
Loans and overdrafts	**35.9**	767.4	–	–
Finance leases	**0.7**	0.8	–	–
Short-term element of long-term loans	**1.9**	2.8	–	–
Total short-term borrowings	**38.5**	771.0	–	–
Total borrowings	**960.5**	1,144.3	–	–
Liquid funds:				
Investments: liquid funds	**(0.5)**	(0.7)	–	–
Cash at bank and in hand and cash deposits	**(100.2)**	(85.7)	**(0.6)**	(6.5)
Net borrowings	**859.8**	1,057.9	**(0.6)**	(6.5)

* Due August 2009, issued in August 1999
** Due May 2008, issued in May 2002
*** Due August 2009, issued in August 2002
**** Due August 2012, issued in August 2002
• Due April 2005

Long-term borrowings include £166.8m (2002: £18.4m) of borrowings repayable within one year, which are drawings under long-term committed facilities and, therefore, have been classified as such.

Under their banking arrangements, overdraft and cash balances of the Company and of certain subsidiaries are pooled or offset and cross-guaranteed. Such pooling and offsets are reflected in the Group balance sheet as appropriate.

The Group has cash balances of £20.7m held with banks within the UK and £80.0m held with banks outside, but freely transferable to, the UK.

Maturity analysis of long-term borrowings

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Amounts falling due after more than one year are repayable as follows:				
Between one and two years	**169.1**	2.8	–	–
Between two and five years	**59.6**	19.7	–	–
After five years:				
By instalments	**39.3**	–	–	–
Other	**654.0**	350.8	–	–
Total	**922.0**	373.3	–	–

The amount of debt, any of which falls due for payment after more than five years, is £693.3m (2002: £350.8m).

19. Derivatives and other financial instruments

The Group has excluded all short-term debtors and creditors from the following disclosures, other than currency exposures.

(i) Interest rate risk profile of the financial liabilities of the Group

Currency	At 31 March 2003 Total* £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m	At 31 March 2002 Total* £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m
Sterling	363.3	0.9	322.8	39.6	16.8	6.6	–	10.2
US dollar	461.8	14.4	429.3	18.1	603.9	578.6	–	25.3
Yen	96.9	1.1	93.3	2.5†	141.3	46.2	92.7	2.4†
Euro	76.1	76.1	–	–	320.1	320.0	–	0.1
Swedish krona	–	–	–	–	66.6	66.6	–	–
Danish krone	–	–	–	–	1.5	1.5	–	–
Other	22.7	22.6	–	0.1	32.1	32.1	–	–
Total	1,020.8	115.1	845.4	60.3	1,182.3	1,051.6	92.7	38.0

* Excludes short-term creditors as permitted by FRS13.
† Represents deposits from retailers. The deposits are repayable when trading ceases and therefore there is no fixed term to maturity.

Currency	At 31 March 2003 Fixed rate financial liabilities: Weighted average interest rate %	Fixed rate financial liabilities: Weighted average period for which rate is fixed Years	Financial liabilities on which no interest is paid: Weighted average period until maturity Years	At 31 March 2002 Fixed rate financial liabilities: Weighted average interest rate %	Fixed rate financial liabilities: Weighted average period for which rate is fixed Years	Financial liabilities on which no interest is paid: Weighted average period until maturity Years
Sterling	9.7	5.2	2.4	–	–	2.2
US dollar	8.4	5.8	4.9	–	–	6.1
Yen	0.3	1.0	n/a*	0.4	2.0	n/a*
Euro	–	–	–	–	–	1.5

* Represents deposits from retailers. The deposits are repayable when trading ceases and therefore there is no fixed term to maturity.

Floating rate financial liabilities comprise bank borrowings. All floating rate financial liabilities bear interest at rates fixed in advance by reference to the applicable bank reference rate in the relevant country for periods ranging from overnight to six months.

The figures shown in the tables above take into account various interest rate and currency swaps used to manage interest rate risk and the currency profile of financial liabilities. Further protection from interest rate movements is provided by interest rate caps and collars. See Note 19 (viii) for further details of interest rate collars and swaps held as at 31 March 2003.

(ii) Interest rate risk profile of the financial assets of the Group

Currency	At 31 March 2003 Total* £m	Floating rate financial assets £m	Fixed rate financial assets £m	Financial assets on which no interest is earned† £m	At 31 March 2002 Total* £m	Floating rate financial assets £m	Fixed rate financial assets £m	Financial assets on which no interest is earned† £m
Sterling	91.0	20.1	–	70.9	56.8	11.0	–	45.8
US dollar	75.3	12.5	–	62.8	80.9	6.8	–	74.1
Yen	41.4	21.0	–	20.4	39.2	21.2	–	18.0
Euro	20.0	18.9	–	1.1	34.2	24.7	–	9.5
Swedish krona	3.1	2.3	–	0.8	2.5	–	–	2.5
Danish krone	0.8	0.6	–	0.2	1.1	1.1	–	–
Other	25.8	25.3	–	0.5	32.0	21.6	–	10.4
Total	257.4	100.7	–	156.7	246.7	86.4	–	160.3

* Excludes short-term debtors as permitted by FRS13.
† Financial assets on which no interest is earned represent mainly advances to artists and investments for which no meaningful average fixed period to maturity can be calculated.

Floating rate financial assets comprise cash at bank and deposits. All floating rate financial assets earn interest at rates fixed in advance by reference to the applicable bank reference rate in the relevant country for periods ranging from overnight to six months.

19. Derivatives and other financial instruments (continued)

(iii) Currency exposures

As explained on page 28 in the Financial Review, the Group's objective in managing currency exposures arising from its net investments overseas (its structural currency exposures) is to maintain appropriate levels of borrowings by currency to hedge partially against currency depreciation. Gains and losses arising from these structural currency exposures are recognised in the statement of total recognised gains and losses.

The table below shows the Group's currency exposures, being those trading assets and liabilities (or non-structural exposures) that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or functional) currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations. These exposures were as follows:

At 31 March 2003

	Net foreign currency monetary assets (liabilities)				
Functional currency of Group operation	Sterling £m	US dollar £m	Yen £m	Euro £m	Other £m
Sterling	n/a	(3.6)	2.3	14.6	6.3
US dollar	(1.6)	n/a	–	(0.9)	(0.9)
Yen	(0.6)	(0.2)	n/a	–	0.2
Euro	6.3	(1.1)	–	n/a	1.1
Other	(3.8)	0.4	(4.1)	0.1	0.4
Total	**0.3**	**(4.5)**	**(1.8)**	**13.8**	**7.1**

At 31 March 2002

	Net foreign currency monetary assets (liabilities)				
Functional currency of Group operation	Sterling £m	US dollar £m	Yen £m	Euro £m	Other £m
Sterling	n/a	8.6	4.8	22.9	18.2
US dollar	4.9	n/a	0.1	0.1	(2.8)
Yen	(0.3)	(0.1)	n/a	–	0.2
Euro	1.8	(1.1)	0.1	n/a	1.6
Other	(2.8)	2.6	–	(0.3)	0.9
Total	3.6	10.0	5.0	22.7	18.1

(iv) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, other than short-term creditors such as trade creditors and accruals, was as follows:

	2003 £m	2002 £m
In one year or less, or on demand	**38.5**	771.0
In more than one year but not more than two years	**193.4**	9.6
In more than two years but not more than five years	**27.3**	40.4
In more than five years	**761.6**	361.3
Total	**1,020.8**	1,182.3

19. Derivatives and other financial instruments (continued)

(v) Undrawn facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 March in respect of which all conditions precedent had been met at that date were as follows:

	2003 £m	2002 £m
Expiring in one year or less	**38.2**	491.9
Expiring in more than one year but not more than two years	**447.7**	21.6
Expiring in more than two years	**–**	–
Total	**485.9**	513.5

On 18 March 2002 the Group signed a new bank facility. This £1.3bn multi-currency revolving credit facility was drawn for the first time in April 2002 and was used to repay most of the Group's existing bank facilities. The new facility comprised an £800m three-year revolving credit and a £500m short-term bridging arrangement, part of which was itself refinanced during the year by the various debt issues and asset disposals.

(vi) Fair values of financial assets (liabilities)

	2003 Book value £m	2003 Fair value* £m	2002 Book value £m	2002 Fair value* £m
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings and current portion of long-term borrowings	**(38.5)**	**(38.5)**	(771.0)	(771.0)
Long-term borrowings	**(922.0)**	**(846.5)**	(373.3)	(369.4)
Liquid funds	**100.7**	**100.7**	86.4	86.4
Other financial liabilities	**(60.3)**	**(60.3)**	(38.5)	(38.5)
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps	**n/a**	**(0.2)**	n/a	20.5
Interest rate caps and collars	**–**	**(6.5)**	–	(6.8)
Currency swaps and forward foreign currency contracts	**n/a**	**–**	n/a	–
Financial assets:				
Financial assets – listed investments	**1.8**	**2.5**	1.5	5.1
Financial assets – other	**154.9**	**154.9**	158.8	158.8

* Market rates have been used to determine fair values.

Long-term borrowings include a US$ Guaranteed Notes issue (book value £315.4m) with a fair value of £275.3m, a Sterling Bond issue (book value £322.8m) with a fair value of £288.4m and a US$ Private Placement (book value of £113.9m) with a fair value of £112.9m. The majority of other borrowings and liquid funds are short-term in nature and book values approximate to fair values. The market value of listed investments is given above. For all other financial assets and liabilities, book values approximate to fair values. During the year a loss of £(0.2)m was made on the sale of current asset investments (2002: profit of £3.3m).

(vii) Hedges

As explained in the Financial Review on page 25, the Group's policy is to hedge interest rate risk, using interest rate swaps, caps and collars. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Gains £m	Losses £m	Total net gains (losses) £m
Unrecognised gains and losses on hedges at 1 April 2002	0.3	(7.6)	(7.3)
Gains and losses arising in previous years that were recognised in 2003	–	(1.2)	(1.2)
Gains and losses arising before 1 April 2002 that were not recognised in 2003	0.3	(6.4)	(6.1)
Gains and losses arising in 2003 that were not recognised in 2003	(0.3)	(0.3)	(0.6)
Unrecognised gains and losses on hedges at 31 March 2003	–	(6.7)	(6.7)
Of which:			
Gains and losses expected to be recognised in 2004	–	(6.5)	(6.5)
Gains and losses expected to be recognised in 2005 or later	–	(0.2)	(0.2)
	–	(6.7)	(6.7)

19. Derivatives and other financial instruments (continued)

(viii) Financial instruments

Interest rate agreements

To manage interest rate risk, the Group has entered into certain interest rate collar and swap agreements which, as at 31 March 2003, were as follows:

	Notional principal	Termination date
Interest rate collars:		
US dollar	$400m	April 2003 to February 2004
Euro	€90m	April 2003

	Notional principal	Termination date	Fixed rate
Interest rate swaps:			
Yen – pay fixed rate and receive floating rate	¥17.5bn	April 2004	0.29%

Swap unwind: In February 2003, following a routine review of derivative positions in the prevailing market conditions, the Group unwound a US$500m interest rate swap position. The swap effectively switched the 8.375% fixed coupon on the US$ Guaranteed Notes issued in August 1999 to a floating rate of interest. The Group received a cash payment of US$86.2m (£55.6m) on the unwind, representing the present value of the expected cash savings from the swap as determined by the expected differential between US short- and long-term interest rates, discounted at the prevailing market rate. At 31 March 2002 this swap position had a fair value of £21.0m. The cash payment is reported on the interest paid line of the Consolidated Cash Flow Statement. The gain from the unwind will be amortised over the remaining life of the Notes, thus locking in the future interest cost benefit to be obtained from the swap. The swap unwind reduces the Group's overall interest rate risk.

Exchange rate agreements

To manage exchange rate risk on intra-group funding, the Group has entered into certain currency swaps and forward foreign currency contracts which as at 31 March 2003 were as follows:

	Gross notional amount purchased	Value date
Australian dollar	$6.5m	April 2003
Canadian dollar	$10.0m	April 2003

20. Cash, liquid resources and financing

The following definitions have been used:

Cash: Cash in hand and deposits repayable on demand if available within 24 hours without penalty, including overdrafts.

Liquid resources: Investments and deposits, other than those included as cash, which are readily convertible into known amounts of cash.

Financing: Borrowings, less overdrafts which have been treated as cash.

Analysis of movement in the Group's net borrowings in the year ended 31 March 2003

	At 1 April 2002 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange movement £m	At 31 March 2003 £m
Cash at bank and in hand	84.4	13.8	–	1.7	**99.9**
Overdrafts	(40.7)	15.8	–	(0.1)	**(25.0)**
Cash	43.7	29.6	–	1.6	**74.9**
Debt due after more than one year	(371.3)	(558.4)	–	9.2	**(920.5)**
Debt due within one year	(729.5)	712.4	(4.3)	8.6	**(12.8)**
Finance leases	(2.8)	0.9	–	(0.3)	**(2.2)**
Financing	(1,103.6)	154.9	(4.3)	17.5	**(935.5)**
Investments: liquid funds	0.7	(0.2)	–	–	**0.5**
Cash deposits	1.3	(0.9)	–	(0.1)	**0.3**
Liquid resources	2.0	(1.1)	–	(0.1)	**0.8**
Total	(1,057.9)	183.4	(4.3)	19.0	**(859.8)**

Cash flow on financing of £154.9m is split between new loans of £(603.5)m, loans repaid of £757.5m and the capital element of finance leases repaid of £0.9m.

20. Cash, liquid resources and financing (continued)

Analysis of movement in the Group's net borrowings in the year ended 31 March 2002

	At 1 April 2001 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange movement £m	At 31 March 2002 £m
Cash at bank and in hand	130.4	(43.4)	–	(2.6)	84.4
Overdrafts	(25.6)	(14.1)	(1.0)	–	(40.7)
Cash	104.8	(57.5)	(1.0)	(2.6)	43.7
Debt due after more than one year	(464.9)	93.3	–	0.3	(371.3)
Debt due within one year	(636.0)	(95.0)	–	1.5	(729.5)
Finance leases	(3.9)	1.1	–	–	(2.8)
Financing	(1,104.8)	(0.6)	–	1.8	(1,103.6)
Investments: liquid funds	0.7	–	–	–	0.7
Cash deposits	6.5	(5.1)	–	(0.1)	1.3
Liquid resources	7.2	(5.1)	–	(0.1)	2.0
Total	(992.8)	(63.2)	(1.0)	(0.9)	(1,057.9)

Cash flow on financing of £(0.6)m is split between new loans of £(460.3)m, loans repaid of £458.6m and the capital element of finance leases repaid of £1.1m.

The Group's net borrowings at 31 March 2003 comprised:

	Cash £m	Liquid resources and financing £m	Net borrowings £m
Investments: liquid funds	–	0.5	0.5
Cash at bank and in hand and cash deposits	99.9	0.3	100.2
Borrowings due within one year	(25.0)	(13.5)	(38.5)
Borrowings due after more than one year	–	(922.0)	(922.0)
At 31 March 2003	**74.9**	**(934.7)**	**(859.8)**
At 31 March 2002	43.7	(1,101.6)	(1,057.9)

21. Other creditors: amounts falling due within one year

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Trade creditors	**186.7**	181.2	**4.0**	1.7
Royalties and fees payable	**665.1**	678.5	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**4.4**	4.1
Amounts owed to associated undertakings	**0.6**	1.7	**0.6**	0.6
Amounts owed to joint venture (HMV Group plc)	**–**	0.1	**–**	–
Corporate taxation	**176.5**	160.2	**24.5**	23.2
Deferred consideration payable*	**10.9**	2.0	**–**	–
Other taxes including VAT and social security costs	**13.5**	16.5	**0.7**	0.2
Dividends payable	**63.0**	29.6	**63.0**	29.6
Other creditors	**76.6**	87.8	**18.9**	1.0
Accruals and deferred income	**172.1**	139.5	**8.3**	17.8
Total	**1,365.0**	1,297.1	**124.4**	78.2

* Deferred consideration payable includes £10.5m which is not conditional upon the satisfaction of future performance criteria.

22. Other creditors: amounts falling due after more than one year

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Amounts owed to subsidiary undertakings	**–**	–	**741.2**	597.0
Deferred consideration payable*	**39.6**	10.3	**–**	–
Accruals and deferred income	**18.5**	17.1	**–**	–
Total	**58.1**	27.4	**741.2**	597.0

* Deferred consideration payable includes £24.8m which is not conditional upon the satisfaction of future performance criteria.

23. Deferred taxation

	Group £m	Company £m
At 31 March 2002	(13.7)	–
Provided in year	4.2	–
Acquisitions, disposals and transfers	0.4	–
At 31 March 2003	**(9.1)**	**–**

The liabilities (assets) for deferred tax provided were as follows:

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Capital allowances in advance of depreciation	**5.0**	4.2	–	–
Other timing differences	**0.5**	(0.8)	–	–
Total liabilities	**5.5**	3.4	–	–
Depreciation in advance of capital allowances	**(2.0)**	(3.3)	–	–
Other timing differences	**(12.6)**	(13.8)	–	–
Total assets	**(14.6)**	(17.1)	–	–
Net asset	**(9.1)**	(13.7)	–	–

Those categories for which no deferred tax is provided are outlined in Accounting Policies on page 65.

24. Other provisions for liabilities and charges

Group

	Trading £m	Pensions £m	Disposal and fundamental reorganisation £m	Acquisition and Integration £m	Total £m
At 31 March 2002	121.1	32.6	4.0	15.4	173.1
Currency retranslation	(2.3)	3.9	–	(1.5)	0.1
Provisions utilised	(74.9)	(8.0)	(1.6)	(0.8)	(85.3)
Charged against:					
Operating profit	4.8	4.9	–	–	9.7
Non-operating exceptional items	–	–	5.0	–	5.0
Disposal of businesses	(0.2)	–	–	–	(0.2)
Reclassification	2.0	–	–	–	2.0
At 31 March 2003	**50.5**	**33.4**	**7.4**	**13.1**	**104.4**

The pension provisions arise in overseas companies in respect of state schemes and employees covered by the Group's unfunded schemes.

Trading provisions include royalty audit and other trading provisions charged through operating profit before exceptional items, and restructuring and reorganisation provisions charged through operating exceptional items.

Company

	Trading £m	Pensions £m	Disposal and fundamental reorganisation £m	Acquisition and Integration £m	Total £m
At 31 March 2002	6.4	–	4.0	–	10.4
Provisions utilised	(3.2)	–	(1.6)	–	(4.8)
Charged against operating profit	1.0	–	–	–	1.0
At 31 March 2003	**4.2**	**–**	**2.4**	**–**	**6.6**

25. Share capital and share premium account

Group and Company

	Authorised 2003 £m	Authorised 2002 £m	Allotted, called-up & fully paid 2003 £m	Allotted, called-up & fully paid 2002 £m
Ordinary Shares of 14p each	**158.8**	158.8	**110.4**	110.4
B Shares of 114.5p each	**479.8**	479.8	**–**	–
Deferred shares of 0.0005p each	**17.5**	17.5	**–**	–
	656.1	656.1	**110.4**	110.4

(i) Ordinary Shares in issue

	Number	Nominal value £m	Premium £m
At 31 March 2002	788,597,933	110.4	445.8
Shares issued during the year on the exercise of options:			
Executive Schemes	–	–	–
Savings-Related Scheme	–	–	–
At 31 March 2003	**788,597,933**	**110.4**	**445.8**

(ii) Share options

Options to subscribe for the Company's Ordinary Shares were outstanding as follows (adjusted for the 1992 rights issue, the 1996 demerger and the 1997 share capital reorganisation, where appropriate):

Subscription Options

	Executive Share Option Schemes	Savings-Related Share Option Scheme 1994 Scheme
At 31 March 2002	14,923,843	1,441,990
Granted	21,077,740	1,275,631
Exercised	–	–
Lapsed	(2,539,441)	(1,188,477)
At 31 March 2003	**33,462,142#**	**1,529,144**
Option price per 14p share (range)	14p–747p	221p–466p
Final exercise date*	February 2013	February 2008

Of which, options over 368,559 shares were granted under the 1984 Executive Share Option Scheme.

Share options for the transfer of the Company's Ordinary Shares were outstanding as follows:

Transfer Options

	Executive Share Option Schemes
At 31 March 2002	19,437,555
Granted	553,000
Exercised	–
Lapsed	–
At 31 March 2003	**19,990,555**
Option price per 14p share (range)	243.3p–700p
Final exercise date*	June 2012

* Options granted under the 1984 Executive Share Option Scheme are normally exercisable no earlier than three years and no later than ten years following the date of grant, as are options granted under the 1995 Executive Share Option Scheme (which are, however, subject to the achievement of performance requirements that must be met before the options normally become exercisable). Options granted under the 1994 Savings-Related Share Option Scheme are normally exercisable for a six-month period following completion of savings to either a three-year or a five-year savings contract.

25. Share capital and share premium account (continued)

(iii) Share premium account

The principal elements that make up the Company's share premium account arose as follows:

Group and Company

	Years arising	£m
Conversions to Ordinary Shares of 7% Convertible Redeemable Second Cumulative Preference Shares 1992/99 of £1 each	1989/90 and 1990/91	56.7
A placing of Ordinary Shares linked to the offer for Thames Television	1990/91	78.0
Issue of Ordinary Shares on exercise of subscription rights of warrants originally attached to 7⅞ % bonds due 1992; and	1991/92	67.1
the transfer from other reserves in respect of amounts paid for the warrants exercised	1991/92	10.2
Issue of Ordinary Shares on conversion of Convertible Unsecured Loan Stock to fund the acquisition of Virgin Music Group	1992/93	508.4
Issue of Ordinary Shares on conversion of 5¾% Guaranteed Redeemable Preference Shares 2004 of THORN EMI Capital NV	1993/94	126.0
Share capital reorganisation (including issue of Redeemable Preference B Shares)	1997/98	(501.2)
Other issues of Ordinary Shares		100.6
Balance at 31 March 2003		**445.8**

26. Reserves

	Group Capital redemption reserve £m	Group Other reserves £m	Group Profit and loss reserve £m	Company Capital redemption reserve £m	Company Other reserves £m	Company Profit and loss reserve £m
At 31 March 2002	495.8	256.0	(2,338.2)	495.8	436.4	1,519.9
Currency translation	–	–	(13.5)	–	–	0.4
Goodwill adjustments:						
Subsidiary undertakings	–	–	8.4	–	–	–
Profit attributable to members of the Holding Company	–	–	229.7	–	–	188.6
Equity dividend	–	–	(62.8)	–	–	(62.8)
Share of joint venture reserves adjustment	–	–	175.3	–	–	–
Transfer of realised reserves	–	–	–	–	(0.8)	0.8
At 31 March 2003	**495.8**	**256.0**	**(2,001.1)**	**495.8**	**435.6**	**1,646.9**

Group reserves include £(10.3)m (2002: £(3.3)m) in respect of its share of post-acquisition retained losses of the joint venture and associated undertakings.

Other reserves of the Company relate to a special reserve which reflects the share premium account reduction of July 1988 and unrealised profits on disposal of investments.

In accordance with the exemption permitted by S230(3) of the Companies Act 1985, the profit and loss account of the Company is not separately presented. The profit attributable to shareholders, dealt with in the accounts of the Company, is £189.2m (2002: £117.6m).

The Group profit and loss reserve includes £1,265.3m (2002: £1,449.0m) in respect of goodwill previously written off.

27. Minority interests (equity)

Group

	2003 £m	2002 £m
Toshiba-EMI Ltd (Japan)	**69.3**	69.2
Jobete Music Co., Inc. (USA)	**59.1**	66.2
Other	**4.5**	5.7
Total	**132.9**	141.1

28. Financial commitments

Group

	2003 £m	2002 £m
Capital expenditure: Contracted	**1.4**	25.6

The Group has commitments, which are largely performance-related, to pay advances to artists and repertoire owners amounting to £460.9m at 31 March 2003 (2002: £418.8m). The future financial commitment regarding the acquisition of shares in Jobete Music Co., Inc. and Stone Diamond Music Corporation is detailed in Note 33.

Annual commitments under operating leases at 31 March were as follows:

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Land and buildings:				
Expiring in the first year	**4.9**	8.3	**0.1**	–
Expiring in the second to fifth years inclusive	**7.1**	5.9	**–**	0.3
Expiring after the fifth year	**13.7**	13.6	**3.2**	3.4
Total	**25.7**	27.8	**3.3**	3.7
Plant, equipment and vehicles:				
Expiring in the first year	**0.9**	1.4	**–**	–
Expiring in the second to fifth years inclusive	**2.7**	3.2	**0.1**	0.2
Expiring after the fifth year	**0.1**	0.1	**–**	–
Total	**3.7**	4.7	**0.1**	0.2

29. Contingent liabilities

The Directors are not aware of any significant legal or arbitration proceedings pending or threatened against any member of the Group which may have any liability materially in excess of provisions in the financial statements.

Guarantees and other contingent liabilities, other than those relating to HMV and HMV Group plc, total £21.5m (2002: £22.3m) for the Group, of which £7.1m (2002: £7.2m) relate to certain contracts entered into by former Group companies. There are several guarantees and other contingent liabilities in respect of HMV and HMV Group plc (see Note 32 (i) for details).

30. Pension arrangements

The Group operates a number of pension schemes throughout the world. The main scheme, which covers employees in the UK, is the EMI Group Pension Fund (the UK Fund). The UK Fund is of the defined benefit type and is open to all permanent employees over the age of 18 employed by the Company and certain subsidiaries in the UK. Benefits provided by the UK Fund are based on final pensionable pay. Pensions payable from the UK Fund are guaranteed to increase by 5% per annum or, if a lower rate, by the increase in the cost of living. Members contribute to the UK Fund at the rate of 4% of pensionable pay.

Aside from the UK, the Group has significant defined benefit schemes in Germany (one scheme) and Japan (three schemes). With the exception of these schemes, the other defined benefit schemes operated on behalf of the Group are not material. The currently agreed rates of contribution by the Group are nil for all significant defined benefit schemes.

Staff engaged in other countries are covered by local arrangements which, in the case of the Group schemes, are of the defined contribution type. The assets of the Group's pension schemes are held mainly in separate trustee-administered funds.

Employer contributions of £12.7m (2002: £13.8m) were charged to the profit and loss account in the year. These contributions primarily related to overseas schemes and were determined in accordance with local practice. Other post-retirement benefit expenses of £0.1m (2002: £0.1m) were also charged to the profit and loss account.

Provision is made in the financial statements for the benefits accruing to members of unfunded pension schemes in accordance with the advice of independent actuaries.

A triennial actuarial valuation of the UK Fund as at 31 March 2003 is currently in progress. The results of this valuation are expected to be available in the second quarter in the 2003/04 financial year, at which time the Group, together with the Pension Fund Trustees, will determine the future funding strategy.

The latest available actuarial valuation of the UK Fund was made by a qualified actuary as at 31 March 2000 using the projected unit method. At that date the market value of the assets of the UK Fund was taken to be £1,079m. The market value of the assets was sufficient to cover 117% of the value of the benefits that had accrued to the members, after allowing for assumed increases in earnings, on the actuarial assumptions used, treating the UK Fund as an ongoing entity. Part of the excess assets disclosed by the 2000 valuation has been used to finance a special increase of 3% to pensions in payment and part has been allocated towards a reduction of employer contributions below the long-term rate, with the balance being carried forward as a reserve in the UK Fund.

Employer expense in respect of the Fund has been calculated in accordance with SSAP24. On the basis of actuarial advice, it is calculated that the employer expense would represent a credit to the profit and loss account on full application of SSAP24 principles. However, for reasons of conservatism, such expense has been taken as £nil for the two years ended 31 March 2003. The long-term financial assumptions used to calculate employer expense under SSAP24 are shown below:

	Growth relative to investment return % per annum
Rate of investment return	5–6
Rate of pay increases	5
Rate of pension increases	3
Rate of price inflation	3

These rates included allowance for the effects of the tax credit changes introduced by the Finance (No. 2) Act 1997.

The most recent full actuarial valuations of the other two significant defined benefit schemes were carried out as follows: Germany on 1 April 2003 and Japan on 31 October 2000.

The additional disclosures required by FRS17 are set out below.

The most recent full actuarial valuations have been updated to 31 March 2003 by qualified independent actuaries.

	United Kingdom %	Germany %	Japan %
Major assumptions			
Rate of general increase in salaries	4.25	3.5	2.4–5.0
Rate of increase to pensions in payment	2.25	2.0	Nil
Rate of increase to deferred pensions	2.25	2.0	Nil
Discount rate for scheme liabilities	5.5	5.0	1.25
Inflation	2.25	2.0	Nil

30. Pension arrangements (continued)

On full compliance with FRS17, on the basis of the above assumptions, the amounts that would have been charged or credited to the consolidated profit and loss account and consolidated statement of total recognised gains and losses for the year ended 31 March 2003 are set out below:

	United Kingdom £m	Germany £m	Japan £m
Operating profit			
Current service cost	11.0	0.3	2.2
Past service cost	–	–	–
Gain on curtailment	–	(2.2)	(2.2)
Total charge (credit) to operating profit	11.0	(1.9)	–
Finance income			
Expected return on scheme assets	(61.0)	–	(1.2)
Interest on scheme liabilities	45.0	1.4	1.4
Net (credit) charge to finance income	(16.0)	1.4	0.2
Total (credit) charge to profit and loss account before taxation	**(5.0)**	**(0.5)**	**0.2**
Consolidated statement of total recognised gains and losses			
Actual return less expected return on scheme assets	196.0	(0.5)	0.6
Experience gains and losses arising on the scheme liabilities	(12.0)	0.2	(0.5)
Changes in assumptions underlying the present value of the scheme liabilities	5.0	3.3	6.2
Actuarial loss recognisable in consolidated statement of total recognised gains and losses	**189.0**	**3.0**	**6.3**

	United Kingdom %	Germany %	Japan %
Further disclosures			
Difference between the expected and actual return on scheme assets expressed as a percentage of the scheme assets	(28.1)	47.6	0–(1.3)
Experience gains and (losses) on scheme liabilities expressed as a percentage of the present value of the scheme liabilities	1.5	(0.7)	15.5–(5.6)
Total actuarial loss recognised in the consolidated statement of total recognised gains and losses, expressed as a percentage of the present value of the scheme liabilities	(23.3)	(10.5)	(8.3)–(11.4)

The market values of the assets of the significant defined benefit schemes at 31 March 2003 were as follows:

	United Kingdom £m	Germany £m	Japan £m
Market value of assets*			
Equities	432.0	–	–
Bonds	252.0	–	–
Other	13.0	1.0	44.5
Total market value of assets	697.0	1.0	44.5
Present value of scheme liabilities	(813.0)	(31.1)	(59.0)
Deficit in the scheme	(116.0)	(30.1)	(14.5)
Pension liability before deferred tax	(116.0)	(30.1)	(14.5)
Deferred tax	34.8	11.4	6.1
Amount provided to cover scheme deficit	n/a	30.7	(2.4)
Impact on reserves	**(81.2)**	**12.0**	**(10.8)**

* The expected long-term rate of return on the assets is as follows:

United Kingdom	7.0% (equities 8.4%, bonds 4.8%, other 3.8%) (2002: 7.2% (equities 8.0%, bonds 5.5%, other 4.5%))
Germany	4.5% (2002: 5.5%)
Japan	1.75% (2002: 2.75% (equities 5.9%, bonds 2.5%, other 2.5%))

Movement in surplus (deficit) during the year:

	United Kingdom £m	Germany £m	Japan £m
Surplus (deficit) in scheme at beginning of the year	68.0	(25.3)	(13.6)
Exchange adjustments	–	(3.4)	–
Current service cost	(11.0)	(0.3)	(2.2)
Past service cost	–	–	–
Gain on curtailment	–	2.2	2.2
Cash contributions	–	1.1	5.6
Other finance income (expense)	16.0	(1.4)	(0.2)
Actuarial loss	(189.0)	(3.0)	(6.3)
Deficit in scheme at end of the year	**(116.0)**	**(30.1)**	**(14.5)**

31. Purchase and disposal of businesses

(i) Purchase of businesses

Acquisitions during the year include Mute Limited (a recorded music business in the UK), Gold Label Limited (a recorded music business in Hong Kong), eCentury Limited (a recorded music business in Taiwan), Rover Music NV and A&S Productions bvba (music publishing businesses in Belgium) and an additional 50% stake in Delabel Editions SA (a music publishing business in France).

	Book value of assets acquired £m	Adjustments £m	Fair value to the Group £m
Music copyrights	–	8.6	8.6
Tangible fixed assets	0.3	–	0.3
Stocks	0.8	(0.8)	–
Debtors	10.6	(4.0)	6.6
Creditors	(7.6)	(0.6)	(8.2)
Tax	0.2	–	0.2
Borrowings	(4.3)	–	(4.3)
Net assets acquired (before cash)	**–**	**3.2**	**3.2**
Goodwill capitalised			39.8
Deferred consideration payable			(20.6)
Net cash consideration			**22.4**
Satisfied by:			
Total consideration			43.7
Deferred consideration payable			(20.6)
Cash consideration			23.1
Net cash acquired			(0.7)
Net cash consideration			**22.4**

The adjustments to book value of £3.2m were made to bring the valuation of the assets acquired in line with the Group's accounting policies.

All acquisitions have been accounted for using the acquisition method.

(ii) Disposal of joint venture (HMV Group plc)

	£m
Share of gross assets less share of gross liabilities at 31 March 2002	(159.9)
Share of loss for year to 31 March 2003	(0.5)
Net liabilities disposed of	(160.4)
Goodwill previously written-off	175.3
Profit on disposal	215.2
Tax on prior-year unrealised profits	(25.6)
Provision for HMV pension shortfall (Note 32 (i))	5.0
Cash inflow on disposal	**209.5**

(iii) Disposal of businesses

Net cash outflow from disposal of businesses includes the disposal of Disky Communications Europe BV (a recorded music business in Holland).

	£m
Tangible fixed assets	0.2
Stocks	5.0
Debtors	22.7
Creditors	(12.7)
Provisions	(0.2)
Tax	2.6
Minority interest	(1.5)
Net assets disposed of	16.1
Goodwill previously written-off to reserves	8.4
Loss on disposal	(25.2)
Cash outflow on disposal	**(0.7)**
Comprising:	
Cash disposed of	(3.2)
Consideration received	2.5
Cash outflow on disposal	**(0.7)**

Notes to the Financial Statements
continued

32. Related party transactions

The Company has taken advantage of the exemption under FRS8 – *Related party disclosures* not to disclose related party transactions between Group subsidiary undertakings. The Group had several transactions with other related parties during the year.

(i) HMV and HMV Group plc
As part of the sale in 1998 of the companies and assets comprising HMV and HMV Group plc (HMV Group) the Company acquired a 45.2% equity stake, and 50% of the Junior Preference Shares, in HMV Group for £87.5m.

An additional £25m, in the form of deferred consideration, was to be receivable on (inter alia) a listing of any part of the share capital of HMV Group on any recognised stock exchange, or 28 March 2003. In addition, an amount of up to £25m further consideration was to be receivable if Advent International Corporation and related investors achieved a specified return on their investment in HMV Group on a listing. As a result of additional equity and preference share issues during 1999 by HMV Group, in which the Company subscribed £9m for additional ordinary and preference shares, at 31 March 2002, the Company owned a 42.65% (39.90% fully diluted) equity stake in HMV Group, and 18.08% and 49.15%, respectively, of HMV Group's Senior 'A' Preference Shares and Junior Preference Shares. The Group also made available to HMV Group a £50m working capital revolving credit facility (the EMI Revolving Credit Facility), no part of which was drawn during the year.

On 15 May 2002, HMV Group shares were admitted to listing on the London Stock Exchange, pursuant to a global offer which involved the Company selling part of its holding of ordinary shares in HMV Group. The net cash proceeds payable to the Group as a result of the flotation comprised the following elements, namely £69.4m, representing (i) the deferred and contingent consideration payable to the Group by HMV Group on its listing under the terms of 1998 sale agreement between the Group and HMV Group, as described above, and (ii) the redemption of the Company's holding of senior preference shares in HMV Group, together with £72.9m in respect of ordinary shares in HMV Group sold by the Company in the global offer.

Following these transactions, the Group retained a residual shareholding in HMV Group of 14.5%. This holding was subject to lock-up arrangements for six months from flotation. On 19 November 2002, the remaining 14.5% interest was sold at a price of 120p per share, which raised net proceeds of about £69m.

As part of the 1998 transaction, the Group also entered into an indemnity deed with HMV Group relating, among other things, to guarantees given by the Group of approximately 87 leases. Under the deed, HMV Group agreed to indemnify the Group against any payments made under those and certain other guarantees and indemnities. HMV Group undertook to use reasonable efforts to arrange for the release of those guarantees. The aggregate annual rental payments under guaranteed leases are approximately £24.4m, although they are subject to adjustment both up and down under certain circumstances. The guaranteed leases have terms which expire in one to 23 years, and many of the leases expire in years beyond 2013.

As part of the flotation arrangements, the EMI Revolving Credit Facility was cancelled. The indemnity deed remains in force in respect of lease guarantees, and HMV Group has secured those obligations pursuant to a security deed, the Company's rights under which rank second behind banks which provide senior credit facilities to HMV Group.

Under the 1998 Sale Agreement, as from 31 May 2003, HMV Group employees will cease to be active members of the Group's UK Fund. They will have the opportunity to join the HMV Group Pension Scheme and, if they so elect, to transfer their Group Fund benefits in terms of accrued service to the HMV Scheme. The Sale Agreement provides for a transfer payment to be made from the Group's UK Fund to the HMV Scheme in respect of benefits so transferred, the transfer payment being made in accordance with actuarial assumptions but agreed as part of the Sale arrangements. If the transfer payment so calculated exceeds the share of the assets of the Group's UK Fund attributable to the transferring members, the Company is obliged to make up the shortfall. An estimate of £5m was provided in the year in respect of the Company's potential liability in this regard and charged as a non-operating exceptional item (see Note 9 (ii) for further details).

The Group also assigned various trademarks to HMV (IP) Limited including the 'Dog and Gramophone' trademark and HMV acronym in consideration for the payment of £2m over a period of three years. HMV (IP) Limited licensed back to the Group for no consideration the right to use the 'Dog and Gramophone' trademark on its recorded music products.

During that part of the year ended 31 March 2003 for which HMV Group plc was a joint venture, companies within the Group made sales of £2.2m (2002: £82.3m) to companies within HMV Group.

(ii) Delabel Music Publishing and related companies
Pursuant to a Heads of Agreement signed in July 1998, in December 2002, the Group completed the acquisition from Emmanuel de Buretel, Chairman and Chief Executive Officer of EMI Recorded Music Continental Europe, of his 50% shareholding in Delabel Editions SA, his 50% interest in Delabel Music Publishing (UK) Limited and his 17% shareholding in Source (UK) Limited. The consideration for the Delabel Music Publishing (UK) Limited shares will be determined by reference to a formula based on future net publisher's share over a three-year period, whilst that for the Source (UK) Limited shares is an override royalty on certain net sales of albums released by Source (UK) Limited artists. The consideration for the shares of Delabel Editions SA was €21.4m with a one-off future payment which will be determined by reference to a formula based on 15 times net publisher's share not to exceed €1.5m.

(iii) Ilchester Investments
As part of the arrangements for Alain Levy's appointment as Chairman and Chief Executive Officer of EMI Recorded Music, the Company agreed to reimburse to Ilchester Investments Ltd, a company controlled by Mr Levy and his family, rental and certain other payments due in respect of that company's leasehold offices in central London, pending the disposal of the lease. Such payments reimbursed or accrued due to Ilchester Investments Ltd, as at 31 March 2003, totalled £138,232 (2002: £59,400).

32. Related party transactions (continued)

(iv) Project Typhoon
In July 2002, the Group entered into a joint venture agreement ('Project Typhoon') with Mr Norman Cheng who subsequently joined the Group as Chairman of EMI South East Asia. Pursuant to that agreement, the Group agreed to establish and fund, on an ongoing basis, new businesses in the People's Republic of China, Hong Kong and Korea, in which Mr Cheng has or will have an equity interest. It is envisaged that once these businesses are fully operational, Mr Cheng will assume full responsibility for their management and will step down from his role as Chairman of EMI South East Asia. The Group has an option to buy, and Mr Cheng has an option to sell, his equity interest in the joint venture businesses in 2009 at a price determined by reference to a formula based on a multiple of earnings over a three-year period. Such a price can be limited to not more than US$100m.

33. Post-balance sheet events

On 19 July 2002 the Group announced that it would complete the purchase of the Jobete song catalogue, one of the world's premier music publishing catalogues containing the classic standards of the Motown era. The Group acquired an initial 50% of Jobete Music Co., Inc. in 1997. It acquired a further 30% on 10 April 2003, for a consideration of US$109.3m. The minority shareholder has the right to require the Group to buy the remaining shareholding at a date not earlier than April 2004 and not later than April 2005, failing which the Group has the option, exercisable in October 2005, to purchase the shareholding. The consideration payable for the remaining 20% will be not less than US$75.1m and not more than US$86.3m.

34. Significant investments

The businesses set out below are those which were part of the Group at 31 March 2003 and in the opinion of the Directors significantly affected the Group's results and net assets during the year. Except where otherwise stated, the country of incorporation is England, the operations are within the United Kingdom, the shares are in equity share capital and the businesses are wholly owned.

Subsidiary undertakings
Recorded Music and Music Publishing
Capitol-EMI Music, Inc. (USA)
Capitol Records, Inc. (USA)
Chrysalis Records Ltd
EMI Music Germany GmbH & Co. KG
EMI Entertainment World, Inc. (USA)
EMI Music Australia Pty Ltd (Australia)
EMI Music France S.A. (France)
EMI Music Italy SpA (Italy)
EMI Music Publishing Ltd
EMI Records Ltd
Jobete Music Co., Inc. (USA) (50% owned)#
Priority Records, LLC (USA)
Toshiba-EMI Ltd (Japan) (55% owned)
Virgin Records America, Inc. (USA)
Virgin Records Ltd

Corporate
EMI Group Finance plc
EMI Group Holdings (UK) Ltd
EMI Group International Holdings Ltd
EMI Group North America Holdings, Inc. (USA)
EMI Group North America, Inc. (USA)
EMI Group Worldwide Ltd
Virgin Music Group Ltd*

* Held directly by the Company.
\# Jobete Music Co., Inc. has been consolidated as a subsidiary, even though it was only 50% owned, in accordance with section 258(4) of the Companies Act 1985.

Five Year Summary

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Results					
Turnover:					
Continuing operations	**2,175.4**	2,445.8	2,672.7	2,386.5	2,373.5
Operating profit:					
Continuing operations					
Group operating profit before exceptional items and amortisation	**254.0**	190.9	332.5	290.6	269.7
Share of joint venture operating profit	**0.4**	34.3	34.4	27.7	30.1
Share of associates' operating profits (losses)	**0.2**	(1.1)	(3.8)	0.8	(0.7)
Total operating profit before exceptional items and amortisation	**254.6**	224.1	363.1	319.1	299.1
Operating exceptional items	**(24.9)**	(242.4)	(42.9)	(4.0)	–
Amortisation of goodwill and music copyrights	**(42.8)**	(51.3)	(53.8)	(34.6)	(27.3)
	186.9	(69.6)	266.4	280.5	271.8
Non-operating exceptional items:					
(Losses) profits on businesses disposed of or terminated	**(25.2)**	–	–	(9.9)	3.7
Profits on disposal of fixed assets and investments	**234.9**	–	–	52.4	–
Profit (loss) before finance charges	**396.6**	(69.6)	266.4	323.0	275.5
Finance charges	**(77.3)**	(83.2)	(103.6)	(73.7)	(72.0)
Profit (loss) before taxation	**319.3**	(152.8)	162.8	249.3	203.5
Taxation	**(83.2)**	(38.2)	(70.9)	(73.0)	(71.7)
Profit (loss) after taxation	**236.1**	(191.0)	91.9	176.3	131.8
Minority interests	**(6.4)**	(8.5)	(12.7)	(17.9)	(9.2)
Profit (loss) attributable to members of the Holding Company	**229.7**	(199.5)	79.2	158.4	122.6
Operating assets					
Music copyrights	**451.2**	518.2	546.8	521.0	373.6
Goodwill	**56.2**	34.0	61.1	26.7	11.6
Property, plant, equipment and vehicles	**289.4**	277.3	306.8	337.2	348.7
Fixed asset investments	**22.2**	29.5	48.6	38.0	58.2
Investments: own shares	**7.3**	13.1	14.4	18.4	19.9
Stock and debtors, excluding taxation and interest	**973.9**	919.6	994.9	882.9	810.2
Creditors and provisions, excluding taxation, dividends and interest payable	**(1,210.4)**	(1,296.4)	(1,231.3)	(1,106.4)	(1,126.6)
Investment in HMV Group plc	–	(159.9)	(168.3)	(169.0)	(167.5)
Operating assets	**589.8**	335.4	573.0	548.8	328.1
Key statistics					
Net borrowings	**859.8**	1,057.9	992.8	921.2	725.2
Net cash inflow from operating activities	**118.3**	211.9	314.8	246.5	330.3
Capital expenditure:					
Fixed assets (continuing operations)	**68.5**	39.2	42.8	37.8	44.7
Earnings per Ordinary Share:					
Basic	**29.3p**	(25.5p)	10.1p	20.3p	15.7p
Adjusted diluted	**15.6p**	11.8p	21.9p	19.2p	18.5p
Dividends per Ordinary Share	**8.0p**	8.0p	16.0p	16.0p	16.0p
Return on sales	**11.7%**	7.8%	12.4%	12.2%	11.4%
Effective tax rate (before exceptional items and amortisation)	**25.3%**	30.0%	27.3%	30.0%	30.9%
Interest cover – excluding joint venture	**3.9x**	4.0x	5.2x	6.9x	7.3x
Dividend cover	**1.95x**	1.5x	1.4x	1.2x	1.2x

Since 1 April 1998, several new accounting standards have been adopted (FRS9 to FRS19) and, where appropriate, comparative results have been restated to reflect the resulting changes in accounting policies and presentation of information.

Investor Information

Financial calendar
Results announcements
Interim to 30 September 2003:
19 November 2003*
Final to 31 March 2004:
18 May 2004*

AGMs and Reports
2003 Annual General Meeting:
9 July 2003
2003 Interim Report:
28 November 2003*
2004 Report and Accounts:
8 June 2004*
2004 Annual General Meeting:
13 July 2004*

Dividend payment dates
2003 final:
payable on 3 October 2003 to shareholders on the register of members at the close of business on 5 September 2003
2004 interim:
payable on 2 April 2004* to shareholders on the register of members at the close of business on 5 March 2004*

*Proposed dates

Lloyds TSB Registrars
Questions about shareholdings, or changes of address or any other particulars, should be sent to:
Lloyds TSB Registrars, Shareholder Services, The Causeway, Worthing, West Sussex BN99 6DA, UK.
A helpline, available at local call rates in the UK only, operates during normal office hours on *0870 600 3984*. Shareholders outside the UK should call *+44 121 415 7060*.

www.shareview.co.uk
Lloyds TSB Registrars have a website at: *www.shareview.co.uk* where shareholders can view information about their shareholdings, as well as find information on how to register a change of name and what to do if a share certificate is lost. There are also facilities to download forms relating to changes of address, dividend mandates and stock transfers.

Multiple accounts
If shareholders receive multiple copies of the Group's Annual or Interim Reports, due to differing name and address details, they should write to Lloyds TSB Registrars requesting that their accounts be amalgamated.

Payment of dividends to bank or building society accounts
Shareholders who wish to have their dividends paid directly into their UK bank or building society account, with the related tax voucher being sent to their registered address, should request a dividend mandate form from Lloyds TSB Registrars or download the form from *www.shareview.co.uk*

Payment of dividends to overseas shareholders
Arrangements can be made for shareholders in a range of countries outside the UK to have their dividends paid directly into their bank account. To find out if such a service can be made available to you, please contact Lloyds TSB Registrars on *+44 121 415 7047*.

Low-cost share dealing service – NatWest Stockbrokers
An execution-only service, for holders of Ordinary Shares, is available for the sale and purchase of the Company's shares at an attractive commission rate. Details about this service may be obtained from:
NatWest Stockbrokers, Corporate & Employee Services, 55 Mansell Street, London E1 8AN, UK; Tel: 0870 600 2050; e-mail: contactces@natwest.com

This information has been approved for the purposes of section 21(2)(b) of the Financial Services and Markets Act 2000 by NatWest Stockbrokers Limited, which is a member of the London Stock Exchange and is regulated by the Financial Services Authority.

ShareGift
If you have a small number of EMI Group plc shares, with a value that makes it uneconomic to sell them, you may donate the shares to charity through the ShareGift scheme operated by The Orr Mackintosh Foundation. Further information on ShareGift can be obtained from their website at *www.sharegift.org* or by calling *020 7337 0501*.

Individual Savings Account (ISA) – Lloyds TSB Bank Plc*
Lloyds TSB Bank Plc can provide a single company ISA for EMI Group plc Ordinary Shares. Details of this ISA, which is only available to UK-resident shareholders, may be obtained from Lloyds TSB Registrars either by writing to them at:
The Causeway, Worthing, West Sussex BN99 6UY, or by calling their ISA helpline on *0870 24 24 244*.

Monthly Purchase Plan (MPP) – Lloyds TSB Bank Plc*
Lloyds TSB Bank Plc provides an MPP for EMI Group plc Ordinary Shares. Information about this MPP may be obtained by writing to:
Lloyds TSB Registrars Scotland, PO Box 28448, Edinburgh EH4 1QW, or calling the MPP helpline on *0870 60 60 268*.

American Depositary Receipts (ADRs)
The Company's ADRs trade on the Over-the-Counter market, with one American Depositary Share (ADS) representing two EMI Group plc Ordinary Shares. JP Morgan Chase Bank is the Depositary for the Company's ADSs. Enquiries should be directed to:
JP Morgan Service Center, PO Box 43013, Providence, RI 02940-3013, USA; Tel: 1-800 428 4237 (toll-free in the USA) or *1-781 575 4328; Website: www.adr.com*

£/US$ dividend conversion facility
This service enables the holders of Ordinary Shares who are resident in the US to receive their dividends in US dollars rather than pounds sterling. Details of this facility may be obtained from:
DB Services Tennessee, Inc., PO Box 305050, Nashville, Tennessee 37230, USA; Tel: 1-615 835 3100.

Share sale facility*
Holders of Ordinary Shares, who are resident in the US and who wish to sell their shares, can submit their share certificate(s) to:
Lloyds TSB Registrars, Shareholder Services, The Causeway, Worthing, West Sussex BN99 6DA, UK.

The registrar, after receiving a minimum of six applications, arranges for all the shares represented by the certificates received to be sold in one transaction. Thereafter, the proceeds of the sale, less any transaction costs, are split amongst the participants in proportion to their shareholdings and the resultant amount remitted to each participant in US dollars.

UK capital gains tax information
The market value of the Ordinary Shares of EMI Group plc (then known as THORN EMI plc) held on 31 March 1982, as adjusted for subsequent capitalisation issues, was 408.15p per share.

The base cost of EMI Group plc Ordinary Shares acquired prior to the demerger of 19 August 1996 will need to be apportioned between EMI Group plc Ordinary Shares of 25p each and Thorn plc Ordinary Shares of 25p in the proportion 78.8% to 21.2%.

The base cost of EMI Group plc Ordinary Shares of 25p each held prior to the share capital reorganisation of 21 July 1997 will then need to be apportioned between the new Ordinary Shares of 14p each and the former B Shares of 114.5p each in the proportion 89.4% to 10.6%.

Share price information
In the UK, the market price of EMI Group plc Ordinary Shares is available on Ceefax and Teletext, or by calling the FT Cityline service on *0906 843 4214* or *0906 003 4214* (calls charged at 60p per minute).

Unsolicited mail
By law, the EMI Group plc share register has to be available for public viewing. If you wish to avoid receiving unsolicited mail from other organisations, please write to:
Mailing Preference Service, Freepost 22, London W1E 7EZ, or call *08457 034599* for an application form.

Annual and Interim Reports
Copies of the Group's previous Annual and Interim Reports are available from the Corporate Communications Department at the address shown below in italics, or, for 1997 onwards, on the EMI Group website at the address shown under Website/general enquiries below.

Social Responsibility Report and Information
The Group's Social Responsibility Report for 2003 will be published during the summer of 2003 and will be made available on the EMI Group website at the address shown below. The printed version and further information on social responsibility matters may be obtained from the Corporate Communications Department at the address shown under Website/general enquiries below.

Website/general enquiries
The EMI Group website provides news and financial information about the Group, as well as its Recorded Music and Music Publishing businesses, together with links to its recorded music labels.

General enquiries may be addressed to the Corporate Communications Department at:
EMI Group plc, 27 Wrights Lane, London W8 5SW, UK; Tel: 020 7795 7000;
Callers from outside the UK should call:
+44 20 7795 7000; Website: www.emigroup.com

* The publication of the information in respect of Individual Savings Accounts, the Monthly Purchase Plan and the Share Sale Facility has been approved, for the purposes of section 21(2)(b) of the Financial Services and Markets Act 2000, by Lloyds TSB Bank Plc, part of the Lloyds TSB Group, which is regulated by the Financial Services Authority.

Analysis of Ordinary Shareholdings at 15 May 2003

Range	No. of holdings	%	Balance as at 15 May 2003	%
1 to 500	11,268	46.00	2,382,069	0.3
501 to 1,000	5,679	23.18	4,194,879	0.5
1,001 to 10,000	6,415	26.19	15,360,726	2.0
10,001 to 100,000	669	2.73	23,903,269	3.0
100,001 to 1,000,000	326	1.33	110,643,321	14.0
1,000,001 and over	139	0.57	632,113,669	80.2
Totals	24,496	100.00	788,597,933	100.0

Subject Index
Principal references

Design
SEA

Print
MM Print Limited

Cover Photography
John Ross

Music from EMI

EMI Group plc
27 Wrights Lane
London
W8 5SW

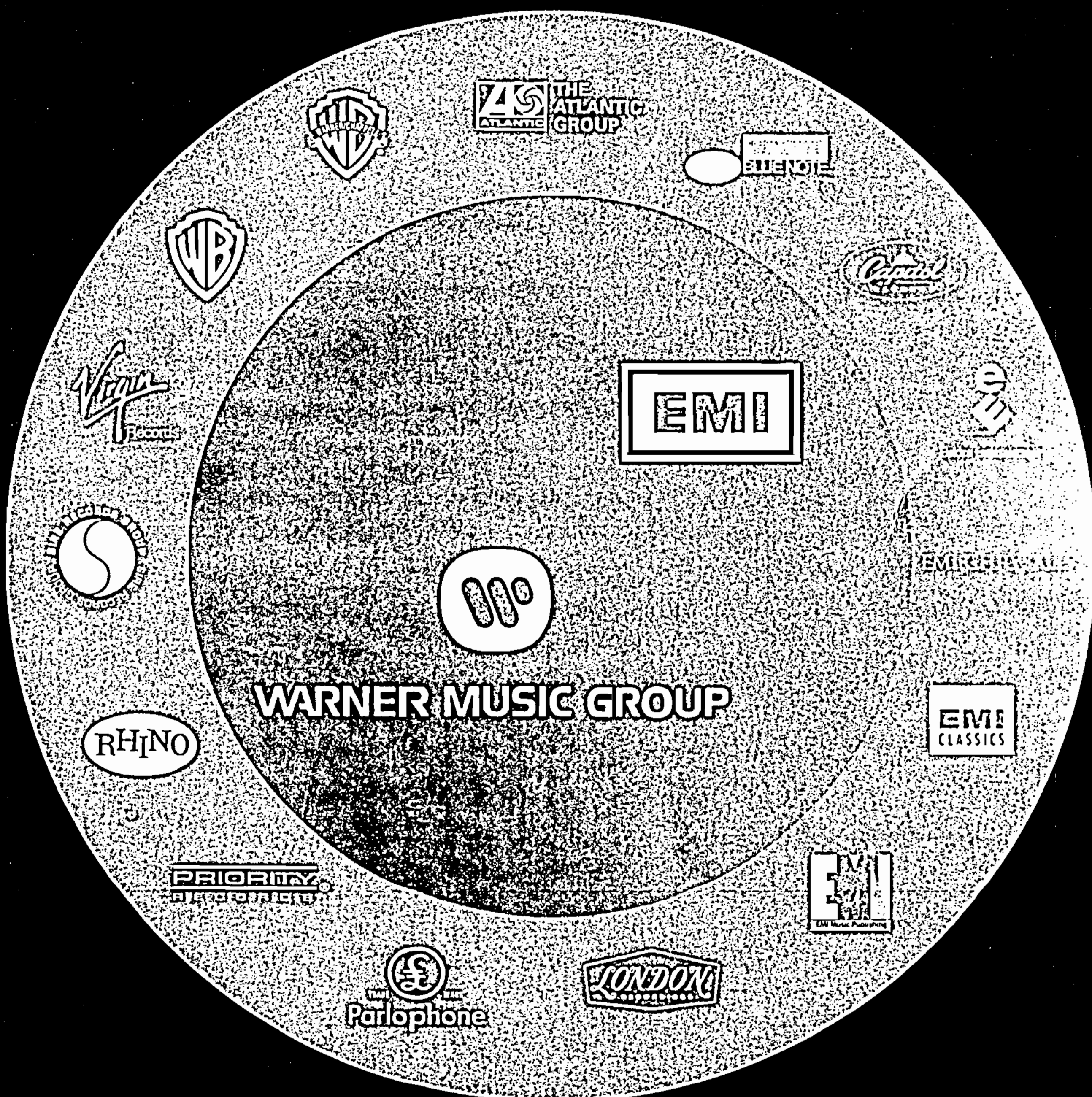
Telephone
020 7795 7000
www.emigroup.com

Registered in
England and Wales
Number 229231

EXHIBIT CO 0927

Proposed combination of EMI Music with Warner Music Group to form Warner EMI Music

EMI Group plc
Circular and Listing Particulars



Sponsored by

UBS Warburg

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended immediately to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services Act 1986.

If you have sold or otherwise transferred all of your shares in EMI Group plc, please forward this document, together with the accompanying form of proxy, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The distribution of this document in jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions.

This document comprises listing particulars dated 2 June 2000 relating to EMI Group plc in accordance with the Listing Rules made under section 142 of the Financial Services Act 1986 and has been delivered for registration to the registrar of companies in England and Wales in accordance with section 149 of that Act.

Dealings in EMI Ordinary Shares will be suspended on the London Stock Exchange on the Closing Date. Application has been made to the UK Listing Authority for the EMI Ordinary Shares to be re-admitted to the Official List and an application has been made for re-admission of the EMI Ordinary Shares to trading on the London Stock Exchange. It is expected that these re-admissions will become effective and dealings will re-commence in respect of the EMI Ordinary Shares on the business day next following the Closing Date.

All statements relating to the business, financial position and prospects of EMI Group plc, EMI Music, Warner Music Group and Warner EMI Music should be viewed in the light of the Year 2000 compliance issues which are set out in paragraph 19 of Part 10 of this document.

EMI Group plc

(incorporated and registered in England and Wales with registered number 229231)

EMI Group plc is sponsored by UBS Warburg

Circular and listing particulars relating to the proposed Combination to create

WARNER EMI MUSIC

Your attention is drawn to the letter from the Chairman of EMI Group plc set out on pages 4 to 6 of this document which recommends you to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting referred to below.

You should read the whole of this document and not just rely on key or summarised information.

Notice of an Extraordinary General Meeting of EMI Group plc to be held at The Charter Suite, The Meridien Waldorf, Aldwych, London WC2B 4DD at 11.00am on 26 June 2000 to approve the proposed Combination and related matters is set out at the end of this document.

The enclosed form of proxy for use at the Extraordinary General Meeting should be completed and returned in accordance with the instructions printed thereon, to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA as soon as possible and in any event so as to be received no later than 48 hours before the time of the Extraordinary General Meeting. Completion and return of the form of proxy will not preclude shareholders from attending and voting at the Extraordinary General Meeting should they so wish.

UBS Warburg and Goldman Sachs International, which are both regulated by The Securities and Futures Authority Limited, are acting for EMI Group plc and no-one else in connection with the matters described in this document and will not be responsible to anyone other than EMI Group plc for providing the protections afforded to their customers or for providing advice in relation to the matters described in this document.

TABLE OF CONTENTS

ADVISERS TO EMI GROUP PLC

Sponsor, Joint Financial Adviser and Joint Brokers	UBS Warburg, a financial services group of UBS AG 1 Finsbury Avenue London EC2M 2PP
Joint Financial Adviser	Goldman Sachs International Peterborough Court 133 Fleet Street London EC4A 2BB
Joint Brokers	Cazenove & Co. 12 Tokenhouse Yard London EC2R 7AN
Legal Advisers (UK)	Freshfields 65 Fleet Street London EC4Y 1HS
Legal Advisers (US)	Davis Polk & Wardwell 450 Lexington Avenue New York NY 10017
Auditors and Reporting Accountants	Ernst & Young Becket House 1 Lambeth Palace Road London SE1 7EU
Registrars	Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA
Legal Advisers to UBS Warburg (UK)	Allen & Overy One New Change London EC4M 9QQ

EXPECTED TIMETABLE

24 June 2000 at 11.00am	Latest time for receipt of form of proxy for the Extraordinary General Meeting
26 June 2000 at 11.00am	Extraordinary General Meeting
Second half of 2000	Closing Date
Within 60 days after the Closing Date	Special Cash Payment and Consolidation

All times are London times

SHAREHOLDER HELPLINE

There is a shareholder helpline (0800 096 4290) available should persons in receipt of this document have questions of a procedural nature. See page 15 of this document for further details.

Part 1 — Letter from the Chairman of EMI

The EMI Group

(Incorporated and registered in England and Wales with registered number 229231)

Registered and Head Office:
4 Tenterden Street
Hanover Square
London W1A 2AY

2 June 2000

Dear Shareholder

PROPOSED COMBINATION WITH WARNER MUSIC GROUP

On 24 January 2000 we announced that an agreement had been reached between EMI and Time Warner to combine our respective music businesses to form Warner EMI Music.

We firmly believe that the creation of Warner EMI Music is the best strategic route for EMI. After a rigorous assessment of the alternatives, the EMI Board believes that this initiative creates more value for EMI shareholders, now and in the future, than other available options. Warner EMI Music will be owned equally by, and run for the equal benefit of, EMI and Time Warner. The Combination provides EMI shareholders with an opportunity to hold an investment in the world's premier music group as we enter potentially the most exciting and dynamic phase in the history of the music industry.

This document contains information on the businesses that will form Warner EMI Music and explains the structure and details of the proposed Combination. Due to its size, your approval of the Combination and related matters will be sought at the Extraordinary General Meeting. A notice convening the Extraordinary General Meeting is set out at the end of this document.

The EMI Directors unanimously recommend that you vote in favour of the resolutions to be proposed at the Extraordinary General Meeting.

Benefits of the Combination

We believe that the Combination will deliver the following principal benefits:

- Yearly cost saving synergies which are expected to exceed £250 million by the end of 2003. It is expected that these synergies will be achieved for one-off cash costs of not more than £425 million and that substantially all of these one-off cash costs will be incurred before the end of 2003.

- A stronger business:

  - the two businesses have an excellent cultural fit and complementary strengths, both geographically and in musical styles

  - Warner EMI Music's combined roster of artists, writers and copyrights and its strength in international and local repertoire will be impressive

  - the two businesses share a commitment to creative focus

  - Warner EMI Music will represent a leading source of music content both for traditional distribution channels and for the internet

  - Warner EMI Music will have a world class management team, led by Roger Ames, who is currently Chairman and Chief Executive Officer of Warner Music Group, and Ken Berry, who is currently Chief Executive Officer of EMI Recorded Music.

- Warner EMI Music will have the opportunity, on an arm's length basis, to have access to Time Warner's media and entertainment platforms as well as AOL's internet channels, if AOL's proposed merger with Time Warner is completed.

Shareholder value

The Combination is expected to create short and long term value for EMI shareholders in the form of:

- A special cash payment of £1 per EMI Ordinary Share following Closing which, as explained on page 8, will be paid for by Time Warner as part of the Combination.

- A 50 per cent. share of the value deriving from the £250 million of expected annual synergies.

- An investment in the world's premier music group, which we believe will be a stronger business with enhanced growth prospects.

- A distribution policy for Warner EMI Music (as described in Parts 2 and 8 of this document) which, subject to certain limitations relating to the requirements of Warner EMI Music's business, aims to provide EMI with sufficient income from Warner EMI Music for EMI to maintain not less than its current dividend level and envisages Warner EMI Music paying out to its shareholders in financial years after 2002 80 per cent. of its combined profit (excluding Columbia House, after tax and minority interests, but before amortisation and exceptional items).

Summary of the Combination

The Combination involves EMI and Time Warner contributing, respectively, EMI Music and Warner Music Group to two entities, each of which will be owned equally by EMI and Time Warner. The Warner EMI Music Boards will each be comprised of six members appointed by Time Warner and five members appointed by EMI and they will each be co-chaired by Richard Parsons, President of Time Warner, and me. Certain key corporate decisions will require the approval of the EMI Board or of EMI shareholders.

Following the Combination, EMI will continue to be listed and to trade on the London Stock Exchange. EMI will own its 50 per cent. stake in Warner EMI Music and will retain its investments in HMV Media and certain music television channels and internet companies. As an incentive to help achieve a strong EMI share price performance, Time Warner will receive EMI Ordinary Shares (representing 8 per cent. of the fully diluted share capital of EMI at Closing) if, for 15 out of 30 consecutive trading days, the EMI share price reaches an agreed trigger level of £9 (subject to certain adjustments as described in Section B of Part 9 of this document) within three and a half years after the Closing Date.

Summary details of the Combination are set out in Parts 2, 8 and 9 of this document.

Current trading and prospects

The results of the EMI Group for the year ended 31 March 2000 are set out in Part 5 of this document. These show that turnover increased by 0.5 per cent. to £2,387 million and operating profit before exceptional items and amortisation grew to £291 million, an increase of 7.7 per cent. The recorded music business saw turnover decline by 1.2 per cent. compared to the previous year, whilst the music publishing business experienced an 11.8 per cent. growth in turnover compared to the previous year.

The results of EMI Music for the year ended 31 March 2000 are set out in Part 6 of this document. These results, which include 100 per cent. of the turnover and operating profit of Toshiba–EMI (EMI's 55 per cent. owned Japanese subsidiary), show turnover the same as for the EMI Group at £2,387 million and operating profit before exceptional items and amortisation of £273 million.

The results for Warner Music Group for the year ended 31 December 1999 are set out in Part 4 of this document. These results show that turnover increased by 1.1 per cent. to £2,474 million and operating profit before exceptional items and amortisation grew to £244 million, an increase of 2.1 per cent.

Given this financial performance and the release schedules for the current year, the EMI Directors and the Proposed WEM Directors and Officers believe that EMI Music and Warner Music Group are well placed to achieve their commercial and financial growth objectives to 31 December 2000.

Extraordinary General Meeting and action to be taken

The Extraordinary General Meeting, notice of which is set out at the end of this document, has been convened for 11.00am on 26 June 2000. At the Extraordinary General Meeting, the resolutions set out in the notice of Extraordinary General Meeting will be proposed to approve the Combination and related matters (as described in Part 2 of this document).

You will find enclosed a form of proxy for use at the Extraordinary General Meeting. Whether or not you intend to be present at the Extraordinary General Meeting, please complete and return the form of proxy in accordance with the instructions thereon, so as to be received by EMI's registrars (Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA) as soon as possible and in any event not later than 11.00am on 24 June 2000. Completion of the form of proxy does not preclude you from attending and voting at the Extraordinary General Meeting in person (in substitution for your proxy vote) if you should so wish.

Recommendation

The EMI Directors, who have received financial advice from UBS Warburg and Goldman Sachs International, consider that the Combination is in the best interests of EMI and its shareholders as a whole. In providing financial advice to the EMI Directors, UBS Warburg and Goldman Sachs International have placed reliance upon the EMI Directors' commercial assessment of the Combination. Accordingly, the EMI Directors unanimously recommend shareholders to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting as they intend to do in respect of their own beneficial shareholdings which, in aggregate, amount to 398,500 EMI Ordinary Shares.

Yours sincerely

Eric Nicoli
Chairman

Part 2 — Information Relating to the Combination

THE WORLD'S PREMIER MUSIC GROUP

EMI Music and Warner Music Group are both world class recorded music and music publishing businesses, and the Combination will create the world's premier music group. The Combination brings together world-leading record labels, more than 2,500 artists and in excess of two million song copyrights within a global business spanning more than 70 countries. In their most recently completed financial years EMI Music and Warner Music Group together had pro forma combined revenues of £4,861 million and EBITDA of £620 million (as extracted from the information set out in Part 7 of this document). Investors should read the whole of this document and not just rely on key or summary information.

BACKGROUND TO THE COMBINATION

The music industry, which is highly competitive, is entering a period of fundamental transition. The key drivers include the significant opportunities and challenges brought about by the internet and developments in new media (see Part 3 of this document for a further discussion of the impact of these developments) and increasing globalisation, as well as constantly evolving consumer tastes and preferences.

EMI and Time Warner are optimistic about the prospects for the music industry. However, they consider that their continued success will require an increasing commitment to new media and an increasing focus on developing musical talent in both established and emerging music markets.

EMI's principal strategic objectives have been to continue to improve operating efficiencies, to strengthen its US recorded music position and international repertoire, to protect its intellectual property rights, to continue to build its publishing catalogue and to exploit the considerable potential of the internet. During the course of discussions with Warner Music Group, it became clear that as a result of a shared view of the industry and vision for the future, an opportunity existed to effect a broad alignment to allow both EMI and Warner Music Group to achieve their strategic objectives more rapidly than they would otherwise be able to.

This background, together with the substantial level of anticipated benefits, has led EMI and Time Warner to agree that Warner EMI Music represents the most attractive combination available for EMI Music and Warner Music Group and their respective artists, customers, employees and shareholders.

BENEFITS OF THE COMBINATION

The Combination will create a focused music business with the skills and content necessary to be the world's premier music group. EMI and Time Warner believe that Warner EMI Music will have enhanced growth prospects, be well placed to attract the best artistic and management talent, and be a leading source of music content for all media (including the internet).

Synergies

EMI and Time Warner expect to achieve cost saving synergies of not less than £250 million per annum by the end of 2003, and that the one-off cash costs necessary to achieve these synergies will not exceed £425 million (substantially all of which are expected to be incurred before the end of 2003). Through EMI's investment in Warner EMI Music, EMI shareholders will have a 50 per cent. share of the value created by the Combination.

Synergies are expected to result mainly from reducing administration and duplicated overheads in the recorded music and the music publishing businesses, as well as in regional and head offices. In addition, significant further savings are expected to be achieved in manufacturing and distribution costs.

A stronger business

EMI and Time Warner believe the Combination will lead to a strengthened business with enhanced growth prospects.

Operational benefits

The Combination will bring together Warner Music Group's strength in the US with EMI Music's strength across Europe, Japan and emerging markets. The profile of Warner EMI Music's portfolio will more closely match that of the world music market. The Combination will also bring together complementary skills and best practices from both businesses in A&R development, marketing, procurement, manufacturing and distribution, supported by an extensive infrastructure of worldwide affiliates.

Roster and repertoire

The combined artist roster will have strong international and local repertoire, including such artists as The Beatles, Brandy, Garth Brooks, Eric Clapton, The Corrs, Janet Jackson, Madonna, Metallica, Spice Girls and Utada Hikaru. Warner EMI Music will also have an impressive collection of publishing rights, including for compositions such as "Over The Rainbow," "New York, New York," "My Girl," "I Heard It Through The Grapevine," "The James Bond Theme," "Star Wars," "Happy Birthday To You," "Rhapsody In Blue" and "White Christmas."

Media access

EMI and Warner Music Group have each forged internet alliances to take advantage of the many opportunities presented by recent technological developments. Certain of EMI's equity holdings resulting from these alliances will not be a part of Warner EMI Music, and EMI intends to continue to own them, although the related licences and commercial agreements will be contributed to Warner EMI Music. Warner EMI Music will aim to be at the forefront of promoting, marketing and distributing music through the internet and is expected to be a leading source for consumers of on-line music content. Time Warner has an extensive network of broadband cable, television, film, print and internet assets. Warner EMI Music will have the opportunity, on an arm's length basis, to promote its content across these delivery systems.

World-class management

The Combination will bring together two of the strongest music business management teams in the world led by Roger Ames (currently Chairman and CEO of Warner Music Group) as Chief Executive Officer and Ken Berry (currently CEO of EMI Recorded Music) as Chief Operating Officer. Each of them has an outstanding track record in A&R and extensive experience of managing multinational music companies. Warner EMI Music will strive to provide the most creative and artist-friendly environment in order to attract and retain the finest musical talent and the best executive talent in the industry.

SHAREHOLDER VALUE

Special Cash Payment: £1 per EMI Ordinary Share upfront

The Combination is being structured so as to provide EMI with cash to make a special cash distribution to its shareholders shortly after the Closing Date of £1 per EMI Ordinary Share (approximately £790 million).

The Special Cash Payment will be paid for by Time Warner – partly by subscribing for the newly issued Convertible Deferred Shares of EMI (see Section B of Part 9 of this document for further details of the rights attaching to these), and partly via a decrease in the debt contributed by Time Warner to Warner EMI Music and a corresponding increase in the cash to be retained by EMI.

Ownership of half of Warner EMI Music

EMI's shareholders will own half of the world's premier music group through their holding in EMI, and will benefit from the expected stronger business and £250 million of synergies. As explained further below, EMI and Time Warner have agreed a distribution policy for Warner EMI Music.

MUSIC'S LONG TERM GROWTH PROSPECTS

EMI and Time Warner believe that the music industry has attractive long term growth potential. This growth is expected to be fuelled by demographic change, economic growth, increases in the levels of leisure expenditure and the development of new markets, and significantly augmented by opportunities arising from the development of new technologies.

According to industry estimates, the highly developed markets of North America and Western Europe still have potential for growth. It is expected that the developing markets will grow strongly in the medium term (although accompanied by volatility) as a result of strengthening economies, increasing political stability and the gradual development of enhanced protection against piracy. Foremost among these will be the markets of Asia and Latin America (assuming they return to the growth pattern interrupted by recent economic difficulties) and Eastern Europe. In the longer term, India, China and Russia have enormous potential.

EMI and Time Warner believe new technologies will serve as a catalyst for future growth in all markets. New avenues for discovering artists and promoting and distributing music, new and more flexible ways for consumers to purchase and enjoy music, greater access to the recordings that already exist, and an increased ability of consumers to find and acquire music that reflects personal choice are likely to increase consumer demand. It is also possible that the internet may accelerate growth in the developing markets where weak physical distribution structures have been an impediment to the growth of traditional music formats. Music publishing may also benefit, with growth in on-line music retailing, downloading, streaming, on-line advertising, and other uses of music on the internet driving potential growth in music publishing revenues.

The potential impact of these developments on music companies depends on a number of factors. Those factors include, among others, the extent of the success in addressing the threat of music piracy, the continuing development and consumer acceptance of new technologies, and the ability of record companies and music publishers to adapt to take advantage of these new technologies – all of which Warner EMI Music will actively pursue with the aim of ensuring the development of a healthy, legitimate on-line music business.

WARNER EMI MUSIC STRATEGY

Warner EMI Music will be a global music group committed to discovering talent, to providing its artists and staff with an environment in which they can flourish both creatively and professionally, to protecting its copyrights, and to achieving these goals in a well-managed business that will thrive in the rapidly evolving music industry.

Expand and improve A&R capabilities

Success in the music business depends primarily on the ability to discover the most promising and talented recording artists and songwriters, to secure their services and to nurture their creative abilities to the fullest extent. Accordingly, Warner EMI Music's record labels and music publishing operations will focus on expanding and strengthening their A&R efforts. The goal will be to establish creative, decentralised A&R teams with the capability to monitor emerging trends in music and discover, sign, and cultivate the finest musical talent.

Increase efforts to promote artists and songwriters globally

Many gifted artists fail to achieve their full potential outside the country or region in which they are signed. As Warner EMI Music will be the result of a combination of companies with different but complementary geographical strengths, another goal will be to build a business culture and adopt promotional strategies – which are being made increasingly available through the internet – that will enable more artists and songwriters to achieve success outside their home territories.

Embrace and adapt to the Internet

The internet has already had a transforming effect on the music business. Warner EMI Music will be committed to harnessing the internet's powerful capabilities to discover artists, market and promote their works and distribute those works in physical or digital form to consumers. In addition, Warner EMI Music will aim to be at the forefront not only of adopting watermarking, encryption and other technologies to protect its artists' works from the significant threat of internet piracy, but also of developing new business models that take advantage of emerging revenue streams created by the internet.

Create efficiencies in order to increase profitability

Warner EMI Music will aim to increase its profitability through greater economies of scale in manufacturing and distribution and through opportunities to improve efficiencies and achieve lower costs in administrative and back office functions.

INFORMATION ON EMI MUSIC AND WARNER MUSIC GROUP

EMI Music

EMI's recorded music business operates via a network of 76 operating companies located in 45 countries, and via licence, distribution and other arrangements covering a further 26 countries. It has a diverse roster of more than 1,500 artists and releases over 1,000 albums a year. EMI's record labels include EMI, Virgin, Capitol, Parlophone, Chrysalis, Blue Note and EMI Classics, and between them they cover a wide range of musical styles.

EMI has a leading music publishing business with a catalogue of over one million copyrights, offices in 31 countries and a presence in 14 more through licensees and sub-publishers.

Further information about EMI is set out in Section C of Part 3 of this document.

Warner Music Group

Warner Music Group is one of the world's leading music entertainment groups. In addition to its major US record labels, which include Atlantic, Elektra, Warner Bros., Rhino and London-Sire, it operates its business outside the US in 67 countries through various subsidiaries, affiliates and non-affiliated licencees.

Warner/Chappell is a leading music publishing company, controlling more than one million copyrights throughout the world with a presence through affiliated and non-affiliated sub-publishers in 40 countries.

On 10 January 2000, Time Warner and AOL announced a proposed merger to create AOL Time Warner. The merger is expected by Time Warner to close in the autumn of 2000 and is subject to customary closing conditions, including the approval of the shareholders of each of AOL and Time Warner and all necessary regulatory approvals. There can be no assurance that these conditions will be met. The shareholders of each of AOL and Time Warner will vote on the merger on 23 June 2000.

Further information about Warner Music Group is set out in Section B of Part 3 of this document.

TERMS OF THE COMBINATION

Contributions to Warner EMI Music

The Combination involves EMI and Time Warner contributing, respectively, EMI Music and Warner Music Group to two entities, each of which will be owned equally by EMI and Time Warner. One of these, a US general partnership, will operate directly, or indirectly through subsidiaries, principally in the US, Canada and Japan. The other, a UK company, will operate directly, or indirectly through subsidiaries, principally in the UK and other jurisdictions outside the US, Canada and Japan.

EMI will transfer its net debt to Warner EMI Music. With Time Warner's debt contribution and certain adjustments, the estimated pro forma net debt of Warner EMI Music at the end of EMI's and Time Warner's most recent financial years, as set out in Part 7 of this document, was £2,332 million.

Special Cash Payment of £1 per EMI Ordinary Share

Shortly after the Closing Date, EMI will make the Special Cash Payment referred to above. As explained on page 8 of this document, this will be paid for by Time Warner. EMI intends to make this payment by way of a special dividend accompanied by a consolidation of EMI Ordinary Shares (the "Consolidation") to reduce the number of EMI Ordinary Shares in issue by the same proportion that the amount of the Special Cash Payment bears to the market capitalisation of EMI. The purpose of the Consolidation is to facilitate the comparability of future and historical data on earnings per share, dividends per share and share price. The Consolidation will not dilute shareholders' proportionate holdings in EMI.

At the Extraordinary General Meeting, EMI will seek authority from shareholders to make the Special Cash Payment and implement the Consolidation.

Please see paragraph 13 of Part 10 of this document for details of the UK tax treatment of the Special Cash Payment and the Consolidation and paragraph 13.3 of Part 10 for further details of the Consolidation.

Convertible Deferred Shares and the Time Warner Option

As an incentive to help achieve a strong EMI share price performance, Time Warner will subscribe at Closing for the Convertible Deferred Shares. These will convert into new EMI Ordinary Shares representing 8 per cent. of the fully diluted (including for conversion of the Convertible Deferred Shares) ordinary share capital of EMI at the Closing Date if the mid-market closing EMI share price as derived from the London Stock Exchange Daily Official List is at or over £9 (as increased appropriately for the Consolidation which will accompany the Special Cash Payment, and subject to adjustment), for any 15 out of 30 consecutive trading days within three and a half years after the Closing Date. The Convertible Deferred Shares will have limited voting rights and no dividend rights.

EMI has agreed to grant Time Warner an option (the "Time Warner Option") to subscribe for EMI Ordinary Shares if the Convertible Deferred Shares have not converted into EMI Ordinary Shares within the period of three and a half years after the Closing Date referred to above. The Time Warner Option will apply to the same number of EMI Ordinary Shares as Time Warner would have received had such conversion taken place, and the subscription price would be £9 per EMI Ordinary Share (subject to adjustments).

Further details are set out in Section B of Part 9 of this document.

Governance of Warner EMI Music

The Warner EMI Music Boards will each be composed of six members appointed by Time Warner and five members appointed by EMI. Most matters will be decided on a majority vote of the Warner EMI Music Boards and the members appointed by Time Warner will have board control over each Warner EMI Music Board. However, certain key corporate decisions of Warner EMI Music will require the approval of EMI. These will include changes to the agreed distribution policy, the issue of new equity by Warner EMI Music (with limited exceptions) and amendments to the WEM UK Shareholders' Agreement, the WEM US Partnership Agreement, the Agreement Between Parents and certain other documents in connection with the Combination. EMI shareholders' approval will be required for certain matters, including for Warner EMI Music to engage in a material business outside the Music Business and for certain significant acquisitions, disposals, mergers, joint ventures or indemnities made by Warner EMI Music.

EMI and Time Warner have agreed that transactions between Warner EMI Music and Time Warner (or AOL Time Warner following consummation of the proposed AOL Time Warner merger) will be on arm's length terms (other than corporate services which will be provided at actual cost). Existing trading arrangements between Warner Music Group and Time Warner (including those described in Section B of Part 8 of this document) will continue on existing terms after the Closing Date but where relevant with such modifications as are described in Section B of Part 8 of this document. EMI and Time Warner believe such terms (where relevant, as so modified) to be at arm's length. In addition, the consent of EMI will be required for certain transactions over a specified value between Warner EMI Music and Time Warner which would confer exclusive rights over Warner EMI Music assets in favour of Time Warner (or AOL Time Warner following the consummation of the proposed AOL Time Warner merger). The consent of EMI shareholders will be required for any transaction between Warner EMI Music and Time Warner or any other relevant related party which requires shareholder approval as a result of the application to Warner EMI Music of the provisions of the Listing Rules relating to transactions with related parties.

Subject to certain exceptions, which are set out in paragraph 8.2 of Section A of Part 8 of this document, Time Warner and EMI have agreed to limit their ability to compete with Warner EMI Music, and to conduct their music publishing and recorded music businesses exclusively through Warner EMI Music.

EMI and Time Warner have agreed that they will allow Warner EMI Music to formulate its business strategy and actions, including those in relation to new media, on an independent standalone basis as determined by the Warner EMI Music Boards and Warner EMI Music's officers.

Further details of the Combination are set out in Parts 8 and 9 of this document.

DIVIDENDS AND DISTRIBUTIONS

Warner EMI Music

EMI and Time Warner have agreed a distribution policy for Warner EMI Music. Warner EMI Music will determine its annual distributions with the following payment levels (subject to the matters explained below): (a) for the fiscal period of nine months ending 31 December 2000, payments equal to 75 per cent. of the Distribution Level (as defined below) to each of EMI and Time Warner; (b) for the fiscal years ending 31 December 2001 and 2002, payments equal to 100 per cent. of the Distribution Level to each of EMI and Time Warner; and (c) for fiscal years ending 31 December 2003 onwards, payments equal to 80 per cent. of Warner EMI Music's combined profit attributable to ordinary shareholders (after minority interests, tax and tax distributions, and before amortisation of intangible assets, exceptional items, and profit or loss from the Columbia House investment, all calculated in accordance with UK GAAP). If, in any fiscal year after 2002, the aggregate amount of payments received by EMI from Warner EMI Music is less than the Distribution Level in respect of such fiscal period, additional payments sufficient to make up the shortfall will be paid by Warner EMI Music (subject to the matters explained below). The WEM UK Board and the WEM US Partners may make such additional cash distributions as they determine.

The "Distribution Level" for these purposes is the sum of: (i) the current dividend level of EMI (being £126 million) increased pro rata to take account of EMI Ordinary Shares issued pursuant to conversion of the Convertible Deferred Shares or upon exercise of EMI employee share options granted prior to the Closing Date, increased each fiscal year after the 2002 fiscal year of Warner EMI Music by a percentage equal to the cumulative percentage increase in the UK Retail Prices Index since April 2000; and (ii) EMI's estimated consolidated corporate overhead and interest costs and taxes on income related to Warner EMI Music (less tax distributions made to any subsidiary of EMI which holds an interest in Warner EMI Music).

EMI and Time Warner have agreed that the financial policies of Warner EMI Music, including as to gearing levels and target credit ratings, will be determined by Warner EMI Music so as to secure the payment levels referred to above. However, this obligation, and these payment levels, will be subject to the ability of Warner EMI Music in the aggregate to meet the cash requirements needed to operate its business in the ordinary course without prejudicing the objective that Warner EMI Music in the aggregate maintains an investment grade credit rating, unless the Warner EMI Music Boards determine that a lower rating is in the best interests of Warner EMI Music. Subject to the foregoing, the management of Warner EMI Music will use its best efforts to maintain an investment grade credit rating for Warner EMI Music in the aggregate.

Further details are set out in paragraph 4 of Section A of Part 8 of this document.

EMI

EMI has agreed that, in the three and a half years after Closing, it will distribute to the holders of EMI Ordinary Shares, by dividend, repurchase of share capital or otherwise, all cash distributions and guarantee fees which EMI receives from Warner EMI Music, other than: (i) funds reasonably required by EMI to pay corporate overheads and taxes and to pay current or reasonably anticipated liabilities; and (ii) after the final distribution in respect of the fiscal year 2002, an additional amount not greater than 5 per cent. of the related distribution from Warner EMI Music.

As EMI will change its year-end to 31 December after the Closing Date, future EMI dividends will be paid in May and November. A pro rata dividend of 12p per EMI Ordinary Share for the period from 31 March 2000 to 31 December 2000 is expected to be paid in May 2001.

As a result of the arrangements described above, EMI expects to maintain its annual dividend per EMI Ordinary Share at not less than the current level of 16p after Closing.

EMI AFTER THE COMBINATION

EMI will continue to be listed on the Official List, to trade on the London Stock Exchange and to be owned by its existing shareholders. EMI will own its 50 per cent. stake in Warner EMI Music and will retain its investments in HMV Media and in certain music television channels and internet companies. EMI will also retain certain of its existing non-Music Business liabilities.

EMI has agreed that, for the period of three and a half years after the Closing Date, its only activities will be ownership of its stake in Warner EMI Music and the EMI Retained Assets (as defined in paragraph 1.3 of Section A of Part 9 of this document).

Further details in respect of EMI after the Combination are set out in Section C of Part 3 of this document.

REGULATORY REVIEW

EU

The proposed Combination falls within the scope of Council Regulation (EEC) No. 4064/89 (the "Merger Regulation") and accordingly the Combination requires the approval of the European Commission (the "Commission") before it is implemented. EMI and Time Warner formally notified the Commission of the Combination on 5 May 2000.

The Commission must review the Combination to determine whether or not it is compatible with the common market and, accordingly, whether or not to permit it to proceed. A transaction which does not create or strengthen a dominant position that would significantly impede effective competition in the common market or in a substantial part of the common market, is considered to be compatible with the common market and must be allowed to proceed. If, following a preliminary 30 day investigation ("Phase I"), the Commission considers that it needs to examine the potential competitive effects of the Combination more closely, it must initiate further investigation ("Phase II"). If the Commission initiates a Phase II investigation, the Commission must make a final decision as to whether or not the Combination is compatible with the common market no later than four months after the initiation of the Phase II investigation.

There can be no assurances as to what the outcome of the Commission's investigation will be or whether a challenge to the Combination will be made on the grounds that it is not compatible with the common market or, if a challenge is made, what the result will be. The Commission has the authority to attach conditions, including the divestiture of assets of EMI and/or Time Warner, to any approval.

US

The premerger filing requirements of the US Hart-Scott-Rodino Act of 1976 and related rules do not apply to the Combination. The FTC, in reviewing the transaction under applicable law and in the absence of a premerger filing, has issued a subpoena and civil investigative demand requesting the production of documents and information to which EMI and Time Warner are in the course of responding. As with any transaction being reviewed by the FTC, that agency has the ability to seek to enjoin the transaction if it determines that the transaction is inconsistent with US antitrust laws.

There can be no assurance as to what the outcome of the FTC review will be or whether a challenge to the proposed Combination will be made on the grounds that it is inconsistent with US antitrust laws or, if a challenge is made, what the results will be. It is possible that in order to resolve any concerns it may have, the FTC may seek, in settlement, to impose conditions including the divestiture of assets of EMI and/or Time Warner.

Canada and Japan

The Combination is also conditional on receipts of applicable anti-trust consents, approvals and authorisations in Canada and Japan. EMI and Time Warner have been advised that no such consents, approvals or authorisations are required in Japan in relation to the Combination. On 25 May 2000, the required pre-transaction notification filing was made in Canada.

The provisions of the Combination Agreement in relation to regulatory approvals are summarised in paragraph 3 of Section A of Part 9 of this document.

MANAGEMENT AND HEADQUARTERS

The Warner EMI Music Boards will be co-chaired by Eric Nicoli (as the EMI representative) and Richard Parsons (as the Time Warner representative). In addition, each Board will have five non-executive members nominated by Time Warner (who will be Merv Adelson, J. Carter Bacot, Beverly Sills Greenough, Gerald Greenwald and Spencer B. Hays) and four non-executive members nominated by EMI (who will be Sir Dominic Cadbury, Dr Harald Einsmann, Kathleen O'Donovan and Michael Jackson). There will be Executive Committees comprised of the two co-chairmen and one additional member nominated by Time Warner.

The executive management team of Warner EMI Music will be drawn from both EMI and Warner Music Group and will be led by Roger Ames as Chief Executive Officer and Ken Berry as Chief Operating Officer.

Warner EMI Music will have world headquarters in New York and international headquarters in London.

Eric Nicoli will continue as Chairman of the EMI Board. Time Warner will not be represented on the EMI Board. It is proposed that Martin Bandier, Tony Bates and Ken Berry will retire from the EMI Board with effect from the Closing Date at which time they will become employees of Warner EMI Music.

COLUMBIA HOUSE

Warner Music Group's shareholding in Columbia House, a 50:50 joint venture with Sony Music Entertainment, Inc. (see Section B of Part 3 of this document), will be contributed to Warner EMI Music at Closing. EMI and Time Warner have agreed that net cash proceeds arising on any disposal of the current investment in Columbia House that will be contributed to Warner EMI Music and any cash distribution with respect to Columbia House will be distributed entirely to Time Warner until it has received $1,000 million, and thereafter 75 per cent. to Time Warner and 25 per cent. to EMI (subject to adjustment). In general, all losses with respect to Columbia House will accrue to Time Warner. Any further investments by Time Warner in Columbia House after Closing must first be offered to Warner EMI Music, and EMI will have the right to decide whether Warner EMI Music takes up the offer. Transactions between Warner EMI Music and Columbia House after Closing (save for certain agreements in effect on the Closing Date) must be on an arm's length basis as between independent third parties (determined as though Warner EMI Music had no investment in Columbia House). Further details are set out in Part 8 of this document.

ACCOUNTING TREATMENT AND REPORTING

The accounting policies to be applied in the future by Warner EMI Music will be reviewed as part of the process of integrating the businesses. One objective of any policy changes will be to reduce the differences between the UK GAAP and US GAAP reporting to EMI and to Time Warner, respectively. EMI will adopt the revised accounting policies of Warner EMI Music when any such revisions are implemented.

Warner EMI Music will have an accounting year end of 31 December and will report in both US GAAP and UK GAAP. EMI will continue to report under UK GAAP and will change its accounting year end from 31 March to 31 December. Accordingly, EMI intends that its current financial period will run for nine months from 1 April 2000 to 31 December 2000.

EMI will account for its interests in Warner EMI Music on an equity accounting basis. It will also disclose full aggregated financial information for Warner EMI Music under UK GAAP. Time Warner will consolidate Warner EMI Music in its accounts under US GAAP.

The accountants' report on Warner Music Group in Part 4 of this document is prepared under UK GAAP.

CONDITIONS TO CLOSING

The Combination is conditional, *inter alia*, on:

- passing of the EMI shareholder resolutions to be proposed at the Extraordinary General Meeting;
- EMI continuing to qualify for listing on the Official List and trading on the London Stock Exchange;
- any requisite regulatory clearances in the EU, US, Japan and Canada (see "Regulatory review" above); and
- certain UK tax clearances.

Further details of the conditions to the Combination are set out in paragraph 3 of Section A of Part 9 of this document.

EXTRAORDINARY GENERAL MEETING AND ACTION TO BE TAKEN

The Extraordinary General Meeting, notice of which is set out at the end of this document, has been convened for 11.00am on 26 June 2000. At the Extraordinary General Meeting, the resolutions set out in the notice of Extraordinary General Meeting will be proposed in order to (i) approve the Combination; (ii) adopt new articles of association principally so as to incorporate the rights attaching to the Convertible Deferred Shares; (iii) authorise the EMI Directors to issue the Convertible Deferred Shares and to grant the Time Warner Option (as described in Section B of Part 9 of this document); (iv) declare the Special Cash Payment and approve the accompanying Consolidation; and (v) approve any consolidation and/or sub-division which may be required to effect any conversion of the Convertible Deferred Shares in accordance with the proposed new articles of association.

You will find enclosed a form of proxy for use at the Extraordinary General Meeting. Whether or not you intend to be present at the Extraordinary General Meeting, please complete and return the form of proxy in accordance with the instructions thereon, so as to be received by EMI's registrars (Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA) as soon as possible and in any event not later than 11.00am on 24 June 2000. Completion of the form of proxy does not preclude you from attending and voting at the Extraordinary General Meeting in person (in substitution for your proxy vote) if you should so wish.

SHAREHOLDER HELPLINE

If you have any procedural questions in relation to the contents of this document or the action to be taken by you, please contact the EMI shareholder helpline on Freefone 0800 096 4290 (or +44 207 335 7290 if calling from outside the UK) between 9.00am and 6.00pm (UK time) on any business day. The EMI shareholder helpline cannot provide any financial advice. Calls may be monitored for quality control purposes.

Part 3 — Business Descriptions

A. OVERVIEW OF THE RECORDED MUSIC AND MUSIC PUBLISHING BUSINESSES

Introduction

EMI Music and Warner Music Group are each composed of two principal businesses: recorded music (dealing with the exploitation of rights in recordings) and music publishing (dealing with the exploitation of rights in compositions). An overview of the recorded music business and the music publishing business is set out below.

Recorded music

General

The recorded music business involves acquiring and developing rights in recordings of performances by artists and exploiting the recordings, principally by selling records. This entails:

- assessing consumer taste and anticipating changes in demand;
- discovering, signing and developing creative talent through investment in A&R;
- organising, developing and funding the recording and production of each record;
- arranging for the manufacture and distribution of each record, either through an affiliate or a third party;
- marketing and promoting the artists on a record company's "roster" and pricing, marketing and promoting each record's release, including the release of singles, and funding and organising the making of promotional videos; and
- selling records to wholesalers and retailers.

A&R

Record companies need to be able, in the face of continually changing consumer tastes, to identify and sign recording artists and bring them to commercial success. The success of a record company in attracting and retaining successful artists depends heavily on its management style, its ability to maintain good relationships with artists and their managers and its capacity effectively to market, promote and support artists' records.

Record companies employ A&R teams whose task it is to identify and sign new artists with potential appeal as well as established artists or artists whose potential, they believe, has not been fully realised. Record companies sign artists with both international and domestic appeal. Domestic repertoire has become an increasingly important source of content over recent years. A&R teams remain involved in the development of an artist once signed, and are often involved in selecting producers, recording studios, additional musicians and songs, as well as supervising the output of recording sessions.

Artists' contracts

Record companies normally seek to sign artists to obtain exclusive use of the copyright in such artist's recordings, in return for which they pay royalties (calculated as a percentage of sales) to the artists. These rights are frequently secured on a worldwide basis, although some artists grant rights for certain territories to different record companies. In the contracted territories these rights are typically exclusive within the constraints of any existing arrangements.

Contracts with artists typically contain firm contractual obligations in relation to one or more albums and often provide the record company with the option to extend the relationship and require delivery of a specified number of additional albums. Contracts provide either for an artist to deliver completed recordings or for the record company to arrange the recording in co-operation with the artist. Record companies commonly pay artists non-returnable amounts, which are recoupable from future royalties. However, there is flexibility in arriving at artists' compensation arrangements. Successful established artists or highly regarded new artists may obtain favourable terms such as a firm obligation on the part of the record company to record and/or release a greater number of albums, higher royalty rates, higher advances, copyright reversion to the artist and specific marketing or promotion commitments from the record company (such as promotional video and touring funds).

Marketing and promotion

Record companies support their artists and records by promotional activity to secure radio play, television coverage, airtime for promotional videos, favourable editorial reviews, coverage via the artist's or company's website, and media appearances and interviews. Public performances are considered to be an important element of the marketing process and record companies may provide financing for promotional and concert tours. Promotional activity is supplemented by marketing campaigns involving a range of media including television, radio, press and magazines, billboards, in-store displays and the internet. The internet is likely, increasingly, to enable artists to engage in self-promotion.

Catalogue

While new records released by artists are usually the main focus of the music industry, the records of any artist may continue to sell many years after release, generating an ongoing revenue stream for the artist and the record company. Sales can be increased by re-releasing or re-mastering recordings and through marketing and promotional initiatives. Additional revenue streams can be generated through the compilation of "Greatest Hits" albums and through multi-artist or themed compilations.

Recorded music formats

Over the last decade, there has been a shift in the primary format of recorded music sold to the public with the majority of records now being sold in CD format. The number of vinyl records sold has declined dramatically to become almost negligible and, since 1990, audio cassette sales have also declined. Worldwide sales of CDs by value during 1999 accounted for over 80 per cent. of all units sold. New digital technologies are not currently significant sales formats for record companies, but in the future they are likely to bring CD-quality music to consumers through streaming and downloading onto personal computers, hand held devices, mobile telephones and other portable technologies.

Music publishing

General

Music publishing is the business of acquiring, administering and exploiting rights in musical compositions. It is a business based on the songs themselves as distinct from the records, films, commercials or other media in which they are used. Music publishers earn their revenue from licensing the right to use their songs. In many cases the performer is also the songwriter. More recently the writer/producer has become a significant force in music.

Music publishers seek out, discover and sign authors with the aim of promoting their compositions to users. In this regard, the publisher may also provide artistic support and development linking authors to other authors and to performers, artists and record labels. Music publishers often provide advance payments against future royalties to the author and produce demonstration recordings of their compositions. They also perform the key functions of the commercial exploitation of rights in authors' compositions, the collection of royalties for those rights (from collecting societies and from users of the rights), and the distribution of the royalties to authors.

Although a music company, in some cases, will own copyrights in musical compositions as well as the rights attaching to recordings of those compositions, it is quite often the case that a music company will own one without the other. It is common for authors who are also recording artists to enter into contracts with unaffiliated recorded music and music publishing companies.

Authors' contracts and copyrights royalties

Copyright conveys to authors (or to their estates) the exclusive legal right to be compensated for the commercial exploitation of their compositions. Every time a musical composition is used commercially a licence should be entered into and a royalty paid.

To ensure that the number of these licences and resulting royalties are maximised, authors often enter into agreements with music publishers for the exploitation of their copyrights. Agreements with music publishers take several forms. The publisher can acquire a direct ownership interest in the copyright as well as providing administration services, or can just provide administration services. The durations of these agreements range from the life of copyright, which is common when an ownership interest has been taken, to several years when no ownership interest is involved.

A music publishing company, having entered in to such an agreement, will exploit a composition by licensing it to users either directly or through a range of national collecting societies. The resulting royalty revenue that is collected by the music publisher will then be shared between the publisher and author (and/or the author's publishing designee) as provided by the agreement. Often the music publisher will provide the author (and/or the author's publishing designee) with an advance against the author's share of future royalties.

The principal sources of copyright owners' and administrators' revenues are:

- licensing of *performing rights* (i.e. the right to perform a composition – for instance on radio or television, in cinemas or in night-clubs);
- licensing of *mechanical rights* (i.e. the right to replicate the performance of a composition – such as in a record);
- licensing of *synchronisation rights* (i.e. the right to create a master recording of a musical composition in timed relation to a series of visual images – such as in television advertisements); and
- licensing of *print rights* (i.e. rights to produce and sell a composition in printed form).

Throughout most of the world, the payment and collection of mechanical and performance royalties is customarily undertaken by collecting societies or agents in each territory for a set fee. However, in the US the payment and collection of performance rights royalties are generally managed through collecting societies, while the payment and collection of mechanical royalties is sometimes managed through direct licensing agreements and sometimes through collecting societies. The vast majority of each of EMI Music's and Warner Music Group's music publishing revenues are effectively subject to rate regulation by government entities or by collecting societies throughout the world.

New Media

The Combination is occurring at a time of fundamental change for the music industry worldwide. Although the proportion of all music sold via the internet is currently relatively small, this is likely to change significantly over the next few years. Even today, the internet promises to transform the music industry and the way music is promoted and delivered to consumers, increasing globalisation and creating new opportunities, new risks and new models for doing business.

New technologies are expected to increase consumer demand for music. In particular, the emergence of broadband services through a variety of domestic devices, including mobile telephones, personal computers and televisions, is expected to accelerate the ability of consumers to access and select music which will be streamed directly to them in the home as well as a variety of other locations. New technologies will facilitate personalisation of consumer choice which is expected to further stimulate consumer demand.

The anticipated growth in on-line music sales and of other on-line applications, such as on-line radio stations, and the streaming and downloading of both audio recordings and music videos, should also have a positive impact on Warner EMI Music's publishing revenues.

The internet is a new tool for discovering artists and promoting music, and also provides a new way of distributing music to consumers both through on-line ordering of physical product and also through digital transmission of music on-line. In both cases it is making a much wider array of music available to consumers worldwide than has been possible through conventional "bricks and mortar" stores, while spurring the invention of new digital technologies for conveniently receiving, recording and playing music.

Just as the reach of the internet is growing rapidly, so are the technological innovations necessary to develop the internet as a channel for music, the most important being improvements in compression technology which reduce the amount of information required to be transmitted without a meaningful loss of sound quality.

New technology is also increasing competition by encouraging new entrants, and changing the traditional relationships which have characterised the music industry. Certain on-line retailers are increasingly performing the functions of record labels; some on-line radio stations and media service providers are behaving more like retailers; and new intermediaries are increasingly discovering and promoting talent and bringing their music directly to consumers. The internet is also changing traditional roles in music publishing by, among other things, facilitating direct contact between authors and artists and the on-line distribution of sheet music. Music companies will have to continue to respond to the opportunities and challenges brought about by the internet.

In terms of challenges, among other things, new technology is increasing already vigorous competition and is opening new opportunities for wide scale music piracy. The advent of new technologies and applications like Napster and MP3 facilitate the ability to search for and download music files without making any payment to the owners of copyrights in sound recordings and musical compositions (see "Piracy and copyright protection" below).

In terms of opportunities, in the past, the advent of new sound carriers such as the CD stimulated growth – EMI and Warner Music Group expect that the internet will now serve as a catalyst for future growth by providing new avenues for promoting and distributing music and by making a wider range of recordings accessible to the consumer. The ability of the internet to reach consumers of music who otherwise do not have easy access to traditional music retailers and formats should also increase demand for recorded music.

Competition

Competition in the recorded music business is intense and (as mentioned above) has increased as a result of new technology. EMI Music's and Warner Music Group's competitive positions are dependent on, among other things, their continuing ability to attract and develop talent that can achieve a high degree of public acceptance, to market and promote this effectively, and to obtain and develop effective management and employees.

EMI Music and Warner Music Group compete with numerous other record companies, and the recorded music business itself also faces competition from other forms of entertainment as well as a variety of new entrants (including internet companies) and sectors of leisure expenditure, such as television, pre-recorded video cassettes and DVDs, the internet, mobile telephones and computer and video games.

The revenues of music publishers depend upon, among other things, consumer acceptance of the publishers' authors and songs. EMI Music's and Warner Music Group's music publishing businesses compete with many other publishing companies in the world and with authors who self-publish.

Piracy and copyright protection

The recorded music business continues to be adversely affected by counterfeiting and piracy. The amount of revenue lost by the music industry through circumvention of copyrights is difficult to quantify. However, in 1998, after completing a reassessment of global piracy, IFPI estimated that the pirate market was worth in excess of $4,500 million compared to $38,700 million for the legitimate retail market and that, globally, one in every three soundcarrier units was a pirate copy.

Piracy

Traditionally, piracy has included the counterfeiting of both audio cassettes and CDs, and the home recording of music on audio cassettes. The biggest risk for the industry until recently has stemmed from unauthorised recordings undertaken on a large scale with a view to commercial exploitation. The advent of recordable CD technology has increased the scope for unauthorised copying and organised piracy. IFPI, the US based National Music Publishers' Association and the Recording Industry Association of America and other industry bodies lobby governments for adequate legislation and effective enforcement of intellectual property rights, and instigate criminal and civil investigations against organised piracy.

More recently, the internet has created an extra dimension to piracy. The use of the internet as an outlet for legitimate sales has been hampered by the extent of piracy and the rapid pace of technological change which has made it difficult to develop secure digital downloading. This has resulted in the unauthorised copying of music, as high quality digital reproductions can be downloaded from the internet without payment to the owner of the rights using new applications and technologies, such as Napster. These downloaded files can then be stored and played through computers or portable music devices, or recorded onto CDs.

In December 1999, EMI, Warner Music Group and other record companies filed a contributory and vicarious copyright infringement case against Napster, Inc. in federal court in the Northern District of California. The substance of the claim is that Napster facilitates the illegal copying and distribution of recordings, by providing a searchable index and other services that enable internet users to find and download unauthorised copies of songs from other Napster users. By its own account, Napster is responsible for making millions of sound recordings available to internet users on a daily basis. In January 2000, certain labels, including labels owned by EMI Music and Warner Music Group, brought a direct copyright infringement action against MP3.com, Inc. ("MP3.com") in a federal court in the Southern District of New York. The Plaintiffs allege that MP3.com, through its new service, My.MP3.com, has made tens of thousands of illegal copies of plaintiffs' copyrighted sound recordings onto its own servers and makes these copies available to its subscribers as a commercial enterprise. Both cases are pending. On 28 April 2000, the court in New York ruled by summary judgment that MP3.com's actions constituted copyright infringement. On 5 May 2000, the court refused Napster's application for summary judgment and ruled that its business activities did not fall within the "safe harbour" provisions of the Digital Millennium Copyright Act.

The recorded music industry is seeking to achieve secure digital music delivery and substantial efforts have been made to curb the threat of piracy through new media. In December 1998, EMI and Warner Music Group joined the SDMI as founder members. The SDMI, a forum for the world's music, computing and consumer electronics industries, is aimed at creating open, voluntary standards for the secure transmission and distribution of music over the internet. It has recently published its first set of standards and many companies in the music, information technology and consumer electronics industry have adopted them. The standards address only newly produced recordings; recordings that are already in the hands of consumers will not be subject to the same protection. The extent to which these standards prove effective in containing piracy of new recordings will depend on the comprehensiveness and durability of these and other protections being implemented and the level of compliance by hardware and software producers.

Copyright protection

The creation and protection of copyright in musical compositions is the legal foundation of the music publishing business. In most cases, copyright law is derived from legislation, on a country by country basis. The period of copyright protection in musical compositions in the EU is, in general, being harmonised to a period equal to the life of the author plus 70 years. Similarly, in the US, for musical works written on or after 1 January 1978, this period is now life of author plus 70 years. US musical works written prior to this date generally enjoy a copyright life of 95 years.

Record companies are largely dependent on legislation in each territory (and on the effectiveness of the authorities in enforcement) to protect their rights against unauthorised reproduction, distribution, public performance or rental of sound recordings. In all territories where EMI Music and Warner Music Group operate, their sound recordings receive some degree of copyright protection, although the period of protection varies widely, from 95 years from first publication of the sound recording in the US to 50 years from first publication of the sound recording in Japan and in EU countries. In a number of developing countries, the protection of copyright remains inadequate.

The growth of new delivery technologies, such as digital broadcasting and the internet, has focused attention on the need to introduce new legislation that will adequately protect the rights in musical compositions and recordings. Each of EMI Music and Warner Music Group actively lobbies in favour of industry efforts to increase copyright protection and supports the efforts of organisations such as WIPO.

In December 1996, two global copyright treaties, the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, were signed, securing the basic legal framework for the international music industry to trade and invest in on-line music businesses. These two treaties are still awaiting ratifications but a major step toward this goal was made with the passage of implementing legislation in the US through the enactment of the Digital Millennium Copyright Act in October 1998.

In the EU, these treaties are to be implemented through the European Copyright Directive which is currently going through the legislative process. The E-Commerce Directive is also relevant to WIPO as it deals with liability issues. A draft of the Copyright Directive was issued in December 1997, has passed through the European Parliament and is currently in the Council of the EU for the preparation of a common position. The Copyright Directive is expected to be adopted within the next few months and will be followed by an implementation period. The E-Commerce Directive was adopted by the EU in May 2000 and is expected to be implemented during the next 18 months. Both Directives address key issues affecting the industry, such as the necessary controls to make music available to the public, legal protection against the circumvention of technical measures designed to protect copyright and related rights and legal protection against the removal or alteration of electronic rights management information.

Environmental matters

As with companies in other sectors, music companies are subject to numerous laws, regulations and international agreements governing protection of the environment, natural resources, human health and safety, and the use, management and disposal of hazardous substances. In particular, the manufacturing and packaging operations of music companies are subject to stringent requirements for packaging and recycling, air and water emissions, and waste management. EMI and Warner Music Group each believes with respect to its own operations that it complies substantially with all applicable environmental requirements.

Certain factors affecting financial results

General

A music company's financial results are affected by, among other things, the appeal of its recorded music repertoire and of its music publishing catalogue and the timing of record releases. Other factors include music market growth, technological developments, economic conditions, the ability to sign and retain artists with consumer appeal, and consumer taste fragmentation (which influences the strength of consumer demand for new album releases). Trends affecting the global market for recorded music also affect mechanical royalties, and accordingly, they also impact on music publishing.

Markets

An international music company's results are affected by the performance of the markets in which it operates. In IFPI's 1999 industry review, estimated retail sales of recorded music in North America, Europe, Japan and Latin America accounted for over 90 per cent. of worldwide sales. The US experienced strong growth for the fifth year in a row, with a rise of 8 per cent. in the value of sales while the Japanese market fell by 7 per cent. in value. Economic recovery prompted sales growth in most of the other top Asian markets. Sales in Latin America fell by 5 per cent., largely due to a decline in the Brazilian market. Australia grew 5 per cent. in value while Mexico entered the world's top ten music markets with a 21 per cent. increase in value. The European market increased by 1 per cent. in value terms with declining sales in France and Germany offset by improvements in the UK, Italy, and Scandinavia.

Release schedule

The net sales and operating income of recorded music companies are dependent, among other things, on their release schedules. The results of operations in any reporting period may be materially affected by the timing and success of individual releases. Turnover generated from the exploitation of a music company's music publishing repertoire, excluding the effects of any acquisitions, tends to remain relatively stable from period to period except to the extent fluctuations are caused by mechanical royalty receipts associated with successful newly-released recordings.

Exchange rates

An international music company's results are affected by fluctuations in foreign currency exchange rates, although this exposure in itself often affords a degree of natural hedging. In the year ended 31 March 2000, over 85 per cent. of EMI Music's sales were generated in currencies other than sterling. In the year ended 31 December 1999, over 45 per cent. of Warner Music Group's sales were generated in currencies other than US dollars.

Foreign currency exchange risk includes both: (i) transaction exposure (the exposure arising where (a) there are fluctuations in trade related commitments denominated in foreign currencies and (b) repertoire sourced from one country incurs costs in that country, but generates overseas revenues denominated in other currencies); and (ii) translation exposure (the exposure arising from the translation of the reported value of consolidated turnover, expenses, assets and liabilities of worldwide subsidiaries denominated in currencies other than the reporting currency).

Forward looking statements

This document contains certain statements which would be treated as forward-looking statements under US securities laws. Some of the factors that may cause the actual results of EMI Music, Warner Music Group or Warner EMI Music to differ from managements' expectations are described in this Section A and elsewhere in this document.

B. WARNER MUSIC GROUP AND ITS ACTIVITIES

Warner Music Group summary

Time Warner's worldwide recorded music and music publishing businesses are conducted principally under the umbrella name, Warner Music Group. In the year ended 31 December 1999, turnover of Warner Music Group from continuing operations was £2,474 million (1998: £2,448 million) and 55 per cent. of its sales were in North America, 8 per cent. in the UK, 24 per cent. in the rest of Europe, 7 per cent. in Asia, and 6 per cent. in the rest of the world.

In the year ended 31 December 1999, Warner Music Group's recorded music operations generated turnover of £2,147 million (1998: £2,116 million) and operating profit before exceptional items and amortisation of £173 million (1998: £169 million). Warner Music Group's music publishing operations generated turnover of £327 million in the year ended 31 December 1999 (1998: £332 million) and operating profit before exceptional items and amortisation of £71 million (1998: £70 million). Further details of Warner Music Group's financial performance are set out in Part 4 of this document.

Recorded music

General

In the US, Warner Music Group's recorded music business is principally conducted through Warner Bros. Records Inc., Atlantic Recording Corporation, Elektra Entertainment Group Inc. and London-Sire Records Inc. and their affiliated labels, as well as through the WEA Inc. companies described below. Warner Music Group's recorded music activities are also conducted in 67 countries outside the US through various subsidiaries, affiliates and non-affiliated licensees. Warner Music Group's international affiliates are referred to collectively as Warner Music International ("WMI"), the operations of which are headquartered in London.

In 1999 WMI acquired London Records, a leading British independent record company. Its artists include All Saints, Faith No More, Fine Young Cannibals and Salt 'n' Pepa.

The WEA Inc. companies include WEA Manufacturing Inc., which manufactures CDs, audio and video cassettes, CD-ROMs and DVDs for Warner Music Group's record labels, Warner Home Video (which is not a part of Warner Music Group) and for outside companies; Ivy Hill Corporation, which produces printed material and packaging for Warner Music Group's recorded music products as well as for a wide variety of other consumer products; and Warner-Elektra-Atlantic Corporation ("WEA Corp."), which markets and distributes Warner Music Group's recorded music products to retailers and wholesale distributors. Warner Music Group also owns a majority interest in Alternative Distribution Alliance ("ADA"), a distribution company in the US specializing in alternative rock music with a focus on new artists.

Warner Music Group's top-selling artists in the last three financial years

The following table lists artists with new release albums in the period which sold over one million units in the last three financial years, or with sales of other albums exceeding one million units in a year.

AC/DC	Gipsy Kings	NEK
Tori Amos	Goo Goo Dolls	Orgy
Barenaked Ladies	Green Day	Pantera
Brandy	Grupo Molejo	Laura Pausini
Sarah Brightman	Faith Hill	Prince
Busta Rhymes	Hootie and the Blowfish	Prodigy
Catatonia	Jewel	Chris Rea
Tracy Chapman	Joao Paulo E Daniel	Red Hot Chili Peppers
Sammi Cheng	Kid Rock	R.E.M.
Cher	Leandro E Leonardo	Adam Sandler
Chicago	Led Zeppelin	Alejandro Sanz
Eric Clapton	Ligabue	Seal
Paula Cole	LSG	Paul Simon
Collective Soul	Madonna	Simply Red
Phil Collins	Noriyuki Makihara	Frank Sinatra
Ry Cooder	Mana	Rod Stewart
The Corrs	matchbox twenty	Stone Temple Pilots
Daniel	Loreena McKennitt	Sugar Ray
The Doors	Natalie Merchant	Keith Sweat
The Eagles	Metallica	Olga Tañon
Missy Elliott	Bette Midler	Third Eye Blind
En Vogue	Luis Miguel	Titas
Enya	Alanis Morissette	Van Halen
Fleetwood Mac	Mark Morrison	Tatsuro Yamashita
John Fogerty	Mr. President	Neil Young

In addition, Warner Music Group owned or participated in several branded multi-artist compilation series, individual editions of which sold more than one million units in the last three financial years. These included Grammy Nominees, Bravo Hits, Power of Love and Big Shiny Tunes.

Manufacturing and distribution

After an artist has entered into a contract with a Warner Music Group label in the US, a master recording of the artist's music is produced. It is then typically provided to Warner Music Group's manufacturing operation, WEA Manufacturing Inc., which replicates the music primarily on CDs and audio cassettes. Ivy Hill Corporation prints material that is included with CDs and audio cassettes and creates packaging for them. WEA Corp. and ADA, Warner Music Group's distribution arms, sell product and deliver it, either directly or through sub-distributors and wholesalers, to thousands of record stores, mass merchants and other retailers throughout the US (including "bricks and mortar" retailers, those such as CDnow and amazon.com that sell exclusively via the internet and those that employ both means). Outside the US, in most cases, WMI markets and distributes the records of those artists for whom Warner Music Group's domestic record labels have international rights. In certain countries where WMI has no presence, it licenses to unaffiliated third-party record labels the right to distribute its records. WMI operates a plant in Germany that manufactures CDs, laser discs and vinyl records for its affiliated companies, as well as for outside companies and, as part of a joint venture, operates a plant in Australia that also manufactures CDs.

In addition to newly released records, each of Warner Music Group's labels continue to market and sell prior releases, in which the labels generally continue to own the copyright. Rhino Entertainment Company, an operating company of Warner Music Group, specializes in compilations and reissues of previously released music.

Warner Music Group has also entered into joint venture arrangements pursuant to which Warner Music Group companies manufacture, distribute and market (in most cases, domestically and internationally) recordings owned by the joint ventures. Such agreements typically provide a Warner Music Group label with an equity interest and a profit participation in the venture, with financing furnished either solely by the Warner Music Group label or by both parties. Included among these arrangements are the labels Maverick, Tommy Boy, Sub Pop and 143 Records. Warner Music Group's operating divisions also enter into agreements with unaffiliated third-party record labels, such as Curb Records, to manufacture and distribute for a fee recordings that are marketed under the owner's proprietary label. In addition, Tommy Boy employs a variety of means to distribute its records. In the US, it self-distributes and distributes through ADA (a Warner Music Group affiliate) and other independent distributors. Outside the US, Tommy Boy Music is a party to various territorial distribution deals, some of which are with Warner Music Group affiliates.

Through a 50:50 joint venture, Warner Music Group and Sony Music Entertainment Inc. ("Sony") operate Columbia House, a direct marketer of CDs, audio and video cassettes in North America. In July 1999, Time Warner announced an agreement with Sony to merge Columbia House with CDnow, a music and video e-commerce company. On 13 March 2000, however, the parties terminated the merger agreement. Warner Music Group will contribute the ownership of its 50 per cent. interest in Columbia House to Warner EMI Music although, under the terms of the Combination Agreement, substantially all of the profits and losses arising from this investment will be allocated exclusively to Time Warner (see Part 8 of this document for further details). Time Warner will retain an interest in CDnow.

Warner Music Group will continue to evaluate strategic alternatives for Columbia House's operations. Those alternatives are focused primarily on ways to improve Columbia House's declining operating performance, including on-line initiatives, joint ventures and other strategic actions. On 28 April 2000 each of Sony and Time Warner loaned Columbia House $93 million. The cash was used by Columbia House to pay off and terminate its bank credit facilities. These loans are due on 30 October 2000 and bear interest at LIBOR plus 2 per cent. Time Warner will not contribute its loan to Warner EMI Music.

Music publishing

Warner Music Group's music publishing companies own or administer the rights to a large number of pop music hits, American standards, folk songs and motion picture and theatrical compositions. These include works from a diverse range of artists and composers including Eric Clapton, Comden & Green, George and Ira Gershwin, Michael Jackson, Madonna and Cole Porter. Warner Music Group's principal music publishing company, Warner/Chappell Music, Inc. ("Warner/Chappell"), also administers the music of several television and motion picture companies, including Lucasfilm, Ltd., Hallmark Entertainment and certain television and film companies affiliated with Time Warner.

Warner/Chappell also owns Warner Bros. Publications US Inc. and CPP/Belwin, Inc., both publishers of printed music. These two companies market publications throughout the world containing the works of such artists as Alabama, The Grateful Dead, Led Zeppelin, Madonna, Bob Seger and many others.

New media

Warner Music Group has actively pursued and continues to pursue new media opportunities. Warner Music Group was a leader in establishing the DVD Audio format, was an important participant in the Madison Project (which tested the sale to consumers of digitally downloaded music) and has made investments in companies that stream recordings or music videos digitally.

General information

Market share

Warner Music Group estimates that in the year ended 31 December 1999 it had approximately a 10.8 per cent. share of wholesale record sales worldwide (excluding sales for which Warner Music Group did not have significant control over A&R or marketing and promotion). It also estimates, based primarily on US and European data, that in 1999 it had approximately a 5 to 10 per cent. share of worldwide music publishing licensing revenues.

Because of the lack of accurate, publicly available, data on the size of total worldwide recorded music and music publishing revenues, Warner Music Group can only estimate its share of such totals based on: (i) internal sales reports; (ii) third party wholesale sales figures for the whole industry with respect to recorded music; and (iii) data from collecting societies, with respect to music publishing.

Employees

At 31 March 2000, Warner Music Group employed approximately 12,200 people worldwide.

Trademarks

Warner Music Group registers its major trademarks and trade names in each country where it believes it is necessary for the effective functioning of its business. Warner Music Group's major trademarks that are owned worldwide include Atlantic, Elektra, Asylum, Sire, Nonesuch, East West and WEA. Warner Music Group monitors and takes legal action against activities that might infringe or dilute its trademarks and trade names.

A number of the Time Warner trademarks currently used by Warner Music Group and other affiliated companies of Time Warner will be licensed to Warner EMI Music (see paragraph 3.3 of Section B of Part 8 for further details).

Recent trends in Warner Music Group's business

Turnover increased to £2,474 million in 1999, compared to £2,448 million in 1998. Operating profit before exceptional items and amortisation increased to £244 million in 1999 from £239 million in 1998. Turnover increased primarily due to higher domestic and international recorded music sales partially offset by declines in music publishing operations. Operating profit before exceptional items and amortisation increased principally as a result of the increase in worldwide turnover, increased cost savings, and higher income from DVD manufacturing operations offset in part by lower results from Columbia House.

Warner Music Group achieved first quarter 2000 EBITA of $80 million, compared to $89 million in the first quarter of 1999. The results reflect a decline in US domestic recorded music partially offset by DVD manufacturing profits. Top sellers for the quarter include Kid Rock, Red Hot Chili Peppers, AC/DC, The Corrs, Alanis Morissette, Cher, Faith Hill, Tracy Chapman, Steely Dan, the *Next Best Thing* soundtrack, Gerald Levert, Eric Clapton, Tim McGraw, Drama and Pantera. Warner Music Group labels and artists won 20 Grammy awards in February 2000.

	Three Months Ended 31 March	
	2000	1999
	($m)	
Revenues	917	936
EBITDA	100	106
EBITA	80	89

The figures for the three months ended 31 March 2000 have been extracted from Time Warner's Form 10-Q filed with the Securities and Exchange Commission on 15 May 2000. The figures for 31 March 1999 and 31 March 2000 were prepared under US GAAP.

Dependence on patents, licences etc.

The core business of Warner Music Group lies in the acquisition and exploitation of rights in recordings and in musical compositions. These rights, the trademarks and brands under which they are exploited, the manufacturing and other processes used to enable reproduction and exploitation, and trading relationships with customers are defined by a framework of contracts, licences and copyrights which is in aggregate fundamental to Warner Music Group's business and profitability. Although certain of them may be material, no single patent, licence, contract or new manufacturing process is individually of fundamental importance to Warner Music Group's business or profitability.

Certain music assets being retained by Time Warner

Following the Closing Date, in addition to all of its business interests other than the Warner Music Group business, Time Warner will also retain limited assets of Warner Music Group as set out in paragraph 1.6 of Section A of Part 9 of this document.

Time Warner is also to retain Time Life Inc. which is a direct marketer of continuity series of books, music and videos and which does not form part of Warner Music Group. Time Life Inc.'s music products are sold by direct response, including mail order, television and telephone, through retail, institutional and learning channels, catalogues, and in some markets by independent distributors. Music and video rights are acquired through third party licences (including Warner Music Group) and compiled internally into finished products.

C. EMI AND ITS ACTIVITIES

The EMI Group summary

The EMI Group comprises two businesses: recorded music and music publishing. In the year ended 31 March 2000 turnover from continuing operations was £2,387 million (1998/99 : £2,374 million). In this period, 13 per cent. of EMI's sales were in the UK, 30 per cent. in the rest of Europe, 30 per cent. in North America, 19 per cent. in Asia and 8 per cent. in the rest of the world.

In the year ended 31 March 2000, EMI's recorded music business generated turnover of £2,033 million (1998/99 : £2,057 million) and operating profit before exceptional items and amortisation of £195 million (1998/99 : £182 million), while EMI's music publishing business generated turnover of £354 million (1998/99 : £317 million) and operating profit before exceptional items and amortisation of £96 million (1998/99 : £88 million). Further details of EMI's financial performance are set out in Part 5 of this document.

In August 1996, EMI demerged Thorn plc. In March 1998, EMI divested its HMV and Dillons businesses, although it retains a minority stake in the purchaser, HMV Media. As a result, since March 1998, EMI has been fully focused on recorded music and music publishing.

EMI also holds certain music television channel and internet investments as described below. The music television channel investments, and the equity stakes in internet investments made before 1 October 1999, will be retained by EMI after the Closing Date and will not be contributed to Warner EMI Music.

Recorded music

General

EMI's recorded music business operates via a network of 76 operating companies located in 45 countries, and via licence, distribution and other arrangements covering a further 26 countries.

EMI Music concentrates on finding, attracting and successfully establishing and developing recording artists through its A&R teams in each country of operation and on turning local artists into national and international successes. EMI Music works to develop long-term relationships with the artists on its roster to help them build successful, long-lasting careers. EMI Music's labels include: EMI, Virgin, Capitol, Parlophone, Chrysalis, Blue Note and EMI Classics.

EMI Music continues to develop a wide variety of repertoire, sourcing musical talent from major markets in Western Europe, Japan and the US as well as from the emerging markets of Latin America, Asia and Eastern Europe. In certain territories, EMI Music also enters into agreements with unaffiliated third party record labels to manufacture and distribute records, which are marketed under the owner's proprietary label, in return for a commission or a fee.

Although the primary sources of international popular repertoire have historically been the UK and the US, EMI Music is also focused on local repertoire that reflects the tastes of consumers in each individual country. In recent years, local repertoire has increased as a percentage of total industry sales, with over half of EMI Music's total sales now derived from sales in the repertoire's home country.

EMI's recorded music business in Japan is carried on through Toshiba-EMI, in which Toshiba Corporation has a 45 per cent. minority stake. EMI and Toshiba Corporation have entered into a shareholders' agreement in respect of Toshiba-EMI (which is summarised in paragraph 15.1(g) of Part 10 of this document). EMI and Toshiba Corporation are currently in discussion as to Toshiba Corporation's shareholding in Toshiba-EMI. There are a number of possible outcomes to these discussions, including the acquisition by Warner EMI Music of Toshiba Corporation's shares in Toshiba-EMI.

EMI Music's top-selling artists in the last three financial years

The following table lists artists with new release albums in the period which sold over one million units in the last three financial years, or with sales of other albums exceeding one million units in a year.

Air	Everclear	George Michael
The Beach Boys	Foo Fighters	The Moffats
Beastie Boys	Genesis	Pink Floyd
The Beatles	Geri Halliwell	Queen
Blur	Hevia	Radiohead
Boowy	Tomoyasu Hotei	The Rolling Stones
Sarah Brightman	Ice Cube	Roxette
Garth Brooks	Janet Jackson	Emma Shapplin
Meredith Brooks	Jarabe De Palo	Ringo Sheena
Maria Callas	Lenny Kravitz	Frank Sinatra
Manu Chao	John Lennon	Smashing Pumpkins
Chemical Brothers	Dean Martin	Snoop Dogg
Joe Cocker	Paul McCartney	Spice Girls
Nat King Cole	Van Morrison	Tina Turner
Phil Collins	Marcy Playground	Utada Hikaru
D'Angelo	Lene Marlin	Vengaboys
Dreams Come True	Massive Attack	The Verve
Duran Duran	Yumi Matsutoya	Robbie Williams
Enigma	Megadeth	Yanni
Eternal		

In addition, EMI Music owned or participated in several branded multi-artist compilation series, individual editions of which sold more than one million units in the last three financial years. These included NOW, Bravo Hits, Big Shiny Tunes, Moods and Wow.

Manufacturing and distribution

EMI Music has seven principal CD manufacturing operations, six of which are wholly owned and one that is a joint venture. The key manufacturing facilities are located in Jacksonville, Illinois, US; Swindon, UK; Uden, The Netherlands; and Gotemba, Japan. Smaller CD manufacturing facilities are located in Canada, South Africa and Australia (a joint venture facility). These manufacturing facilities produced 515 million CDs in the year ended 31 March 2000, supplying approximately 97 per cent. of the total number of CDs sourced by EMI for its own and third party use. EMI Music also manufactures cassettes at its US, UK and South African facilities as well as in a dedicated cassette plant in Malaysia. Over the past few years, EMI Music has continued to consolidate its operations and increase their capacity with state-of-the-art facilities, including adding or replacing over 30 manufacturing lines with the latest, most efficient technology available.

Generally, EMI Music has its own distribution services for the storage and delivery of finished product to wholesalers and retailers, although in some territories EMI Music has entered into distribution joint ventures with other record companies. EMI Music has warehouses in most countries where it operates. The principal warehouses are located in Jacksonville, Illinois, US; Leamington Spa, UK; Uden, The Netherlands and Hong Kong, China.

Music publishing

EMI Music's publishing business has more than one million copyrights under its ownership, control or administration, and it has offices in 31 countries and a presence in 14 more through licensees and sub-publishers. Its catalogue includes songs by Sting, The Goo Goo Dolls, Carole King, Aerosmith, TLC, Texas, Enrique Iglesias, Billy Joel, Queen and Simply Red, as well as standards such as "Over The Rainbow," "New York, New York," the "James Bond Theme" and, through Jobete, Motown classics such as "My Girl" and "I Heard It Through The Grapevine".

EMI Music's publishing catalogue includes SBK (CBS Songs, MGM and United Artists), Filmtrax (Columbia Pictures and Television), Screen Gems, Virgin, Jobete (Motown) as well as a substantial part of the Windswept Pacific catalogue. Details of the Jobete joint venture and the Windswept Pacific acquisition are set out in paragraphs 15.1(f) and 15.1(d) respectively of Part 10 of this document.

EMI Music's publishing business generates royalty revenue through the licensing of its copyrights for a wide and growing array of uses. These include recordings, public performances, radio broadcasts, advertisements, film and television productions, merchandise, computer and video games, karaoke, theatrical musicals and sheet music as well as new uses being created by the internet and related technologies.

New media

EMI is positioning itself to take advantage of the many opportunities presented by the internet. It has formed strategic alliances with new media companies involved in developing new ways of delivering music and supporting the infrastructure changes required to operate in a digital landscape. By entering into these transactions, EMI has sought to ensure that it is at the forefront of technological developments in music distribution.

In forming these alliances, EMI has leveraged its music catalogue to take equity stakes in many of these new media companies. Equity stakes in the companies that are listed under "Internet investments" below will be retained by EMI after the Combination. EMI also holds shares, warrants or other equity investments in Urocket (a manufacturer of internet radio broadcast jukeboxes), Online Entertainment (a live concert webcast company), GlobalNet Systems (an internet media programming service), DiscoverMusic (an audio clip service) and Net4Music (a distributor of electronic sheet music). These stakes will be contributed to Warner EMI Music at Closing.

EMI Music is also an active participant in projects to develop internet delivery standards, such as the SDMI, and has taken steps to develop the technical infrastructures needed to use developing applications. In addition, EMI Music uses the internet as a marketing and promotional tool as well as to enhance communication with customers.

General information

Market share

EMI estimates that in the year ended 31 March 2000 it had approximately a 12.5 per cent. share of wholesale record sales worldwide (excluding sales for which EMI did not have significant control over A&R or marketing and promotion). EMI also estimates, based primarily on US and European data, that it had approximately a 5 to 10 per cent. share of worldwide music publishing licensing revenues in 1999.

Because of a lack of accurate, publicly available, data on the size of total worldwide recorded music and music publishing revenues, EMI can only estimate its share of such totals based on: (i) internal sales reports; (ii) third party wholesale sales figures for the whole industry with respect to recorded music; and (iii) data from collecting societies, with respect to music publishing.

Employees

At 31 March 2000, EMI employed approximately 10,000 people worldwide.

Trademarks

EMI Music registers its major trademarks and trade names in each country where it believes it is necessary for the effective functioning of its business. EMI Music's trademarks worldwide include EMI, Capitol, Blue Note, Chrysalis, Hemisphere, NOW, Parlophone and Angel. The Virgin trademark and the Virgin signature trademark have been licensed on an indefinite, exclusive basis to EMI Music by the Virgin Group for use worldwide in connection with the recorded music business (acquiring and exploiting music rights, but not in a retail context, for video/computer games or as a manufacturer of devices, media and other carriers capable of carrying music recordings). EMI Music monitors and takes legal action against activities that might infringe or dilute its own trademarks and trade names.

Recent trends of EMI's business

Turnover for the year ended 31 March 2000, at £2,387 million, was up 0.5 per cent. against turnover of £2,374 million in the previous year. EMI's recorded music sales fell 1.2 per cent. to £2,033 million as a decrease in sales in North America, due to a weaker release schedule than the previous year, outweighed the increase in sales in Japan caused by EMI's strength in domestic repertoire. EMI's music publishing sales increased 11.8 per cent. to £354 million as a strong performance, notably in North America and Europe, was enhanced by acquisitions including the Windswept Pacific and Hit & Run catalogues.

In the year ended 31 March 2000 operating profit before exceptional items and amortisation of £291 million was up 7.7 per cent. against £270 million in the previous year. EMI's profits in recorded music of £195 million were up 7.1 per cent. against £182 million in the previous year as profits increased in all regions except North America. This fall in profits in North America was more than offset by a significant increase in profits in Japan and the first profits from EMI's new media strategy. EMI's music publishing profits of £96 million were up 9.1 per cent. against £88 million in the previous year, driven by strong overall performance and acquisitions during the year.

Dependence on patents, licences etc.

The core business of EMI lies in the acquisition and exploitation of rights in recordings and in musical compositions. These rights, the trademarks and brands under which they are exploited, the manufacturing and other processes used to enable reproduction and exploitation, and trading relationships with customers are defined by a framework of contracts, licences and copyrights which is in aggregate fundamental to EMI's business and profitability. Although certain of them may be material, no single patent, licence, contract or new manufacturing process is individually of fundamental importance to EMI's business or profitability.

EMI after the Combination

Overview

Following the Closing Date, EMI will hold its 50 per cent. stakes in Warner EMI Music. It will also hold certain internet and music television channel investments, as described below, and certain other non-Music Business assets and liabilities (see Section A of Part 9 of this document).

HMV Media

EMI will retain its 42.65 per cent. (39.90 per cent. fully diluted) equity interest in HMV Media, a music and book retailing joint venture. HMV Media was formed on 28 March 1998 to acquire Waterstone's from WH Smith Group PLC and to acquire the HMV and Dillons businesses from EMI. HMV is a leading international specialist retailer of pre-recorded music and associated products with 280 stores in eight countries and Waterstone's is a bookstore chain that now includes the rebranded Dillons' branches with 209 stores in the UK and Ireland. EMI accounts for its holding in HMV Media as a joint venture under FRS 9. EMI is party to various ongoing arrangements with HMV Media. Further details are set out in note 33(i) in Part 5 and in paragraph 15.1(e) of Part 10 of this document.

Music television channel investments

EMI will retain its 24.7 per cent. stake in VIVA (which is the premier music television channel in Germany, and which is expanding through continental Europe).

EMI will also retain its 12.4 per cent. stake in Channel V, which is an Asian music television channel.

Internet investments

EMI will retain its entire ownership interest in any shares, warrants or other equity investments in the following internet companies:

(a) musicmaker.com	a bespoke internet CD compilation company listed on Nasdaq in which EMI has an equity stake and to which EMI has granted a five-year licence for certain agreed product
(b) Liquid Audio	an internet music distribution service with which EMI has a strategic alliance and in which EMI has an equity stake

(c)	Alliance Entertainment/ Digital On-Demand	EMI has an equity stake in Alliance Entertainment, the parent company of Digital On-Demand, which develops retail kiosks for the digital downloading of music onto CDs
(d)	sanity.com	the internet business of Sanity Music, Australia's largest music retailer in which EMI has an equity stake
(e)	Preview Systems	a market leader in electronic software distribution in which EMI has an equity stake
(f)	Launch Media	an internet video streaming company
(g)	Radiowave	an internet music broadcaster
(h)	Entertainment Boulevard	an internet video streaming company in which EMI has an equity stake
(i)	Supertracks	a company that provides digital distribution solutions in which EMI has an equity stake
(j)	Listen.com	a comprehensive directory of music capable of being downloaded from the internet in which EMI has an equity stake

The continuing licence agreements and other commercial arrangements between EMI Music and these companies will be contributed to Warner EMI Music.

Part 4 — Financial Information for Warner Music Group

ERNST & YOUNG

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ACCOUNTANTS' REPORT

The Directors
EMI Group plc
4 Tenterden Street
Hanover Square
London W1A 2AY

2 June 2000

The Proposed Directors and Officers
Warner EMI Music
c/o Time Warner Inc.
75 Rockefeller Plaza
New York, NY 10019

UBS Warburg, a financial services group of UBS AG
1 Finsbury Avenue
London EC2M 2PP

Dear Sirs

Introduction

We report on the financial information set out below. The financial information has been prepared for inclusion in the circular and listing particulars of EMI Group plc ("EMI") dated 2 June 2000 (the "Circular") relating to the proposed merger of EMI's music businesses with Warner Music Group, which represents the music businesses of Time Warner Inc. ("Time Warner") that are to be contributed to Warner EMI Music.

Basis of preparation

Warner Music Group comprises the music business conducted by Time Warner and its subsidiaries under the overall divisional name Warner Music Group. This is not a legally constituted group but comprises separate divisions, subsidiaries and joint ventures of Time Warner. The financial information set out below is based on information contained within the audited internal reporting packages of those entities carrying out the music businesses of Time Warner, on the basis more fully described in the accounting policies on page 42, which were prepared for the purposes of the Time Warner audited consolidated financial statements for the three years ended 31 December 1999, after making such adjustments as we considered necessary. Such adjustments included restating the information to conform with accounting principles generally accepted in the United Kingdom, on a consistent basis with those applied by EMI.

Responsibility

The audited internal reporting packages of Warner Music Group are the responsibility of officers of Time Warner who approved their preparation.

The directors of EMI Group plc and, to the extent specified in paragraph 1 of Part 10 of the Circular, the Proposed WEM Directors and Officers (as defined in the Circular), are responsible for the contents of the Circular in which this report is included.

It is our responsibility to compile the financial information set out in our report from the audited internal reporting packages of Warner Music Group, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of the evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by the auditors of Time Warner relating to the audited internal reporting packages of those entities carrying out the music businesses of Time Warner prepared for the purposes of the Time Warner consolidation. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the audited internal reporting packages of those entities carrying out the music businesses of Time Warner, which underlie the financial information and whether the accounting policies are appropriate to Warner Music Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Circular, a true and fair view of the state of affairs of Warner Music Group as at the dates stated and of its profits, cash flows and recognised gains and losses for the periods then ended.

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COMBINED PROFIT AND LOSS ACCOUNT

for the years ended 31 December 1999 and 31 December 1998

	Notes	1999 Total (£ million)
Turnover:		
Continuing operations (including joint ventures)		2,834
Less: joint ventures turnover		(360)
Group turnover	1	2,474
Cost of sales		(1,512)
Gross profit		962
Distribution costs		(148)
Administration expenses		(650)
Other operating income, net		30
Group operating profit:	1&2	194
Share of operating (loss)/profit in joint ventures	11	(10)
Total operating profit		184
Non-operating exceptional items:	7	
Profit on sale of businesses		—
Profit on sale of tangible fixed assets		1
Share of joint venture's profit on sale of business	11	6
Profit before finance charges		191
Finance charges:		
Group		9
Joint ventures	11	(28)
Total finance charges	5	(19)
Profit on ordinary activities before taxation		172
Taxation on profit on ordinary activities	6	(72)
Profit on ordinary activities after taxation		100
Minority interests (equity)		(1)
Profit attributable to members of Warner Music Group		99
Dividends	21	(17)
Transfer to profit and loss reserve		82

1999 Total llion)	1999 Exceptional items and amortisation (£ million)	1999 Before exceptional items and amortisation (£ million)	1998 Before exceptional items and amortisation (£ million)	1998 Exceptional items and amortisation (£ million)	1998 Total (£ million)
.834	—	2,834	2,824	—	2,824
360)	—	(360)	(376)	—	(376)
474	—	2,474	2,448	—	2,448
512)	(21)	(1,491)	(1,497)	(22)	(1,519)
962	(21)	983	951	(22)	929
148)	—	(148)	(126)	—	(126)
650)	(29)	(621)	(590)	(26)	(616)
30	—	30	4	—	4
194	(50)	244	239	(48)	191
(10)	—	(10)	30	(2)	28
184	(50)	234	269	(50)	219
—	—	—	—	—	—
1	—	1	—	—	—
6	—	6	—	—	—
191	(50)	241	269	(50)	219
9	—	9	13	—	13
(28)	—	(28)	(30)	—	(30)
(19)	—	(19)	(17)	—	(17)
172	(50)	222	252	(50)	202
(72)	18	(90)	(114)	19	(95)
100	(32)	132	138	31	107
(1)	—	(1)	(1)	—	(1)
99	(32)	131	137	31	106
(17)	—	(17)	(17)	—	(17)
82	(32)	114	120	31	89

COMBINED PROFIT AND LOSS ACCOUNT

for the years ended 31 December 1998 and 31 December 1997

	Notes	1998 Total (£ million)
Turnover:		
Continuing operations (including joint ventures)		2,824
Less: joint ventures turnover		(376)
Group turnover	1	2,448
Cost of sales		(1,519
Gross profit		929
Distribution costs		(126)
Administration expenses		(616)
Other operating income, net		4
Group operating profit:	1&2	191
Share of operating (loss)/profit in joint ventures	11	28
Total operating profit		219
Non-operating exceptional items:	7	
Profit on sale of businesses		—
Profit on sale of tangible fixed assets		—
Share of joint venture's profit on sale of business	11	—
Profit before finance charges		219
Finance charges:		
Group		13
Joint ventures	11	(30)
Total finance charges	5	(17)
Profit on ordinary activities before taxation		202
Taxation on profit on ordinary activities	6	(95)
Profit on ordinary activities after taxation		107
Minority interests (equity)		(1)
Profit attributable to members of Warner Music Group		106
Dividends	21	(17)
Transfer to profit and loss reserve		89

1998 Total illion)	1998 Exceptional items and amortisation (£ million)	1998 Before exceptional items and amortisation (£ million)	1997 Before exceptional items and amortisation (£ million)	1997 Exceptional items and amortisation (£ million)	1997 Total (£ million)
,824	—	2,824	2,663	—	2,663
(376)	—	(376)	(419)	—	(419)
,448	—	2,448	2,244	—	2,244
,519	(22)	(1,497)	(1,366)	(18)	(1,384)
929	(22)	951	878	(18)	860
126)	—	(126)	(115)	—	(115)
616)	(26)	(590)	(563)	(16)	(579)
4	—	4	25	—	25
191	(48)	239	225	(34)	191
28	(2)	30	26	—	26
219	(50)	269	251	(34)	217
—	—	—	13	—	13
—	—	—	—	—	—
—	—	—	—	—	—
219	(50)	269	264	(34)	230
13	—	13	13	—	13
(30)	—	(30)	(32)	—	(32)
(17)	—	(17)	(19)	—	(19)
02	(50)	252	245	(34)	211
95)	19	(114)	(119)	14	(105)
07	(31)	138	126	(20)	106
(1)	—	(1)	(3)	—	(3)
06	(31)	137	123	(20)	103
17)	—	(17)	(48)	—	(48)
89	(31)	120	75	(20)	55

COMBINED BALANCE SHEETS

at 31 December 1999, 31 December 1998 and 31 December 1997

	Notes	1999 (£ million)	1998 (£ million)	1997 (£ million)
Fixed assets				
Music copyrights	8	116	123	103
Goodwill	9	195	53	—
Tangible fixed assets	10	277	236	236
Investments: joint ventures	11			
share of gross assets		350	320	351
share of gross liabilities		(669)	(577)	(576)
loans to joint ventures		385	338	322
		66	81	97
Other fixed asset investments	11	5	4	9
		659	497	445
Current assets				
Stocks	12	96	88	80
Debtors: amounts falling due within one year	13	1,528	1,299	1,145
Debtors: amounts falling due after more than one year	13	17	18	18
Investments	14&16	141	146	118
Cash at bank and in hand	14&16	146	132	96
		1,928	1,683	1,457
Creditors: amounts falling due within one year				
Borrowings	14&16	(195)	(202)	(154
Other creditors	17	(1,520)	(1,239)	(1,064)
		(1,715)	(1,441)	(1,218)
Net current assets		213	242	239
Total assets less current liabilities		872	739	684
Creditors: amounts falling due after more than one year				
Borrowings	14&16	(5)	(7)	(12)
Other creditors	17	(101)	(86)	(45)
		(106)	(93)	(57)
Provisions for liabilities and charges				
Deferred taxation	18	(1)	(4)	(5)
Other provisions	19	(34)	(39)	(25)
		(35)	(43)	(30)
		731	603	597
Capital and reserves				
Combined share capital	20	55	55	55
Combined additional paid in capital	20	628	628	628
Combined profit and loss reserve (including goodwill previously written off)	21	916	817	754
Amounts transferred to parent	21	(870)	(898)	(842)
Combined shareholders' funds		729	602	595
Minority interests (equity)		2	1	2
		731	603	597

COMBINED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the years ended 31 December 1999, 31 December 1998 and 31 December 1997

		1999		1998		1997
	(£ million)	(£ million)	(£ million)	(£ million)	(£ million)	(£ million)
Profit for the financial year		99		106		103
Currency translation – Warner Music Group	14		(11)		35	
Currency translation – joint venture	3		(9)		—	
Other recognised gains (losses)		17		(20)		35
Total recognised gains and losses relating to the year		116		86		138

RECONCILIATION OF MOVEMENTS IN COMBINED SHAREHOLDERS' FUNDS

for the years ended 31 December 1999, 31 December 1998 and 31 December 1997

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Opening shareholders' funds	602	595	469
Profit for the financial year	99	106	103
Dividends	(17)	(17)	(48)
Disposal of businesses	—	(6)	—
Shares issued	—	—	38
Capital contributions	—	—	5
Other recognised gains (losses)	17	(20)	35
Amounts transferred from (to) parent	28	(56)	(7)
Net increase in shareholders' funds for the year	127	7	126
Closing shareholders' funds	729	602	595

COMBINED CASH FLOW STATEMENT

for the years ended 31 December 1999, 31 December 1998 and 31 December 1997

	Notes	1999 (£ million)	1998 (£ million)	1997 (£ million)
Net cash inflow from operating activities		182	237	162
Dividends received from joint ventures	11	19	28	33
Returns on investments and servicing of finance				
Interest received		13	18	15
Interest paid		(27)	(23)	(23)
Interest element of finance lease payments		(1)	(1)	(2)
Net cash outflow from returns on investments and servicing of finance		(15)	(6)	(10)
Taxation				
Tax paid		(97)	(81)	(136)
Tax refunded		3	12	—
Cash outflow from taxation		(94)	(69)	(136)
Capital expenditure and financial investment				
Purchase of copyrights	8	(14)	(42)	(13)
Purchase of tangible fixed assets	10	(83)	(53)	(49)
Sale of tangible fixed assets	10	4	5	17
Payment to acquire fixed asset investments		—	—	(3)
Sale of fixed asset investments		—	—	7
Net cash (outflow) from capital expenditure and financial investment		(93)	(90)	(41)
Acquisitions and disposals				
Purchase of joint venture	11	—	(2)	(1)
Loans (made to) joint ventures	11	(12)	—	—
Disposal of joint venture		—	3	6
Net cash acquired with subsidiaries	25	20	1	—
Purchase of subsidiaries		(5)	(4)	—
Net cash inflow (outflow) from acquisitions and disposals		3	(2)	5
Equity dividends paid		(17)	(17)	(48)
Net cash (outflow) inflow before management of liquid resources and financing		(15)	81	(35)
Management of liquid resources:	16			
Sale of current asset investments		150	117	102
Purchase of current asset investments		(140)	(148)	(119)
Financing:	16			
Issue of Ordinary Share Capital		—	—	38
Additional paid in capital		—	—	5
Amounts transferred from (to) parent		28	(56)	(7)
Long term loans repaid		—	(1)	(2)
Short term loans repaid		(166)	(129)	(114)
Short term loans taken out		162	159	129
Capital element of finance leases repaid		(1)	(2)	(1)
Net cash inflow (outflow) from management of liquid resources and financing		33	(60)	31
Increase (decrease) in cash		18	21	(4)

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Notes	1999 (£ million)	1998 (£ million)	1997 (£ million)
Group operating profit		194	191	191
Depreciation charge	10	46	43	50
Amortisation charge:				
Copyrights	8	21	22	18
Goodwill	9	6	3	—
Provisions for liabilities and charges:				
Amounts provided	19	8	21	13
Provisions utilised	19	(13)	(7)	(15)
(Increase) decrease in working capital:				
Stock		(8)	(8)	12
Debtors		(158)	(122)	110
Creditors		86	94	(217)
Net cash inflow from operating activities		182	237	162

ACCOUNTING POLICIES

Basis of preparation

The combined financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards. The results for the years ended 31 December 1999, 1998 and 1997 represent continuing operations.

Basis of combination

Warner Music Group comprises the music business conducted by Time Warner and its subsidiaries under the overall divisional name "Warner Music Group". This is not a legally constituted group but comprises separate divisions, subsidiaries and joint ventures of Time Warner.

The combined financial statements are based on the audited internal reporting packages of those entities carrying out the music businesses of Time Warner prepared for the Time Warner consolidation under accounting principles generally accepted in the US. These internal reporting packages have been adjusted to exclude activities of Time Warner not being contributed to Warner EMI Music, to include activities and functions of Time Warner to be contributed to Warner EMI Music and not previously included in Warner Music Group, and to restate the information to conform with accounting principles generally accepted in the UK on a consistent basis with those applied by EMI.

The results of all subsidiaries operating in the US are taken from their internal reporting packages made up to 31 December. The results of all international subsidiaries are taken from their internal reporting packages made up to 30 November. The results of subsidiaries and joint ventures disposed of or acquired during the year are included up to, or from, the date that control passes.

Warner Music Group's 50 per cent. interest in Columbia House (as defined in the Circular) has been included in these financial statements as it is an investment of Warner Music Group which is being contributed to Warner EMI Music. However, under the terms of the Combination Agreement (as defined in the Circular), substantially all of the profits and losses arising from this investment will be allocated to Time Warner.

Financial Reporting Standards

The following Financial Reporting Standards, issued by the Accounting Standards Board, have been adopted effective for the year ended 31 December 1997: FRS9 – Associates and Joint Ventures, FRS11 – Impairment of Fixed Assets and Goodwill, FRS12 – Provisions, Contingent Assets and Contingent Liabilities, FRS13 – Derivatives and Other Financial Instruments: Disclosures. In addition, FRS10 – Goodwill and Intangible Assets was adopted effective for the year ended 31 December 1998.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the local currency either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of profit for the financial year.

On combination, average exchange rates have been used to translate the results of divisions, subsidiaries and joint ventures to the currency adopted for reporting purposes. The assets and liabilities of divisions, subsidiaries and joint ventures are translated into the currency adopted for reporting purposes at year end rates.

Exchange differences arising from the retranslation at year end exchange rates of the opening net investment in divisions, subsidiaries and joint ventures and foreign currency borrowings, in so far as they are matched by those foreign investments, and the results of divisions, subsidiaries and joint ventures, are dealt with in Warner Music Group reserves.

Turnover

Turnover represents the invoiced value or contracted amount of goods and services supplied by Warner Music Group. Turnover excludes sales-related taxes.

Pension costs

Employees of Warner Music Group participate in several pension schemes of its parent, Time Warner. Pension costs are charged to the profit and loss account so as to spread the cost of pensions over the working lives of the employees within Warner Music Group. Valuation surpluses or deficits are amortised over the expected remaining working life at Warner Music Group of the relevant employees.

Joint Ventures

Entities in which Warner Music Group holds an interest on a long-term basis, and which are jointly controlled by Warner Music Group and one or more parties under a contractual arrangement, are treated as joint ventures and are accounted for using the gross equity method.

The results of joint ventures are taken from their accounts made up to 31 December.

Goodwill and Music Copyrights

Goodwill arising on acquisitions made after 31 December 1998 is capitalised and amortised over its expected useful life, principally restricted to 20 years. Music Publishing copyrights are capitalised on acquisition and amortised over their expected useful life, principally restricted to 20 years. Both goodwill and music publishing copyrights are reviewed for impairment at the end of the first financial year following acquisition and in other periods where events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill arising on acquisitions made before 31 December 1998 has been charged directly against shareholders' funds in the year of acquisition and is included within the profit and loss reserve, yet separately identified within the reserves note. This goodwill will remain in reserves until, on the disposal or closure of any business, the profit and loss account includes a charge in respect of the goodwill previously written off against shareholders' funds on the acquisition of the business.

Advances to Artists

Advances to artists and repertoire owners are assessed for recoverability. The value of the unrecouped portion to be included in debtors is determined by estimating future recoupment, based on past sales performance, current popularity and projected sales.

Leased Assets

Assets held under finance leases are included as tangible fixed assets at their estimated purchase cost and depreciated over their expected useful lives, or over the primary lease period, whichever is shorter. The obligations relating to finance leases (net of finance charges allocated to future periods) are included under borrowings due within or after one year, as appropriate. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the lease term.

Depreciation of Tangible Fixed Assets

Depreciation of tangible fixed assets is calculated on cost at rates estimated to write off the cost less the estimated residual value of the relevant assets by equal annual amounts over their expected useful lives; effect is given, where necessary, to commercial and technical obsolescence.

The expected useful lives are:

Freehold buildings and long-term leasehold property	15 - 25 years
Short-term leasehold property	Period of lease
Machinery, equipment, furniture & fixtures	3 - 13 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes manufacturing overheads where appropriate. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Taxation

The US operating results of Warner Music Group are included in the consolidated US federal, state and local income tax returns of Time Warner and its subsidiaries. The foreign operations of Warner Music Group are subject to taxation by foreign jurisdictions. The tax charge in the combined profit and loss account of Warner Music Group represents the US and foreign taxes payable by Time Warner and its subsidiaries on the results included in these accounts.

Deferred taxation is calculated using the liability method and as such reflects the net tax effects of timing differences arising from the difference between the accounting and tax treatments of certain items. Provision is made, or recovery anticipated, where timing differences are expected to reverse without replacement in the foreseeable future. The financial effect of changes in tax laws or rates is accounted for in the period of enactment.

Under a tax-sharing agreement between Warner Music Group and Time Warner, Warner Music Group pays to, or receives from Time Warner, amounts equal to the total US income taxes, or tax benefits, provided by, or attributable to Warner Music Group. Accordingly, no US income tax balances are reflected in the combined balance sheets of Warner Music Group. These amounts are included within amounts transferred to parent.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

for the years ended 31 December 1999, 31 December 1998 and 31 December 1997

1. Segmental Analyses

	Turnover (£ million)	Operating profit (£ million)	Operating assets (£ million)	Average employees No.
By class of business:				
1999				
Recorded Music	2,147	173	106	11,067
Music Publishing	327	71	196	1,040
	2,474	244	302	12,107
Operating exceptional items and amortisation:		(50)		
		194		
1998				
Recorded Music	2,116	169	91	11,198
Music Publishing	332	70	159	1,028
	2,448	239	250	12,226
Operating exceptional items and amortisation:		(48)		
		191		
1997				
Recorded Music	1,909	160	66	11,680
Music Publishing	335	65	185	1,032
	2,244	225	251	12,712
Operating exceptional items and amortisation:		(34)		
		191		
By origin:				
1999				
North America	1,362	100	258	7,514
Europe	785	125	(38)	3,260
Asia	179	(2)	80	696
Other	148	21	2	637
	2,474	244	302	12,107
1998				
North America	1,325	104	219	7,338
Europe	764	108	22	3,462
Asia	185	—	20	768
Other	174	27	(11)	658
	2,448	239	250	12,226
1997				
North America	1,136	79	161	7,535
Europe	698	86	82	3,678
Asia	220	33	—	811
Other	190	27	8	688
	2,244	225	251	12,712

The split of operating exceptional items and amortisation of goodwill and copyrights by class of business is as follows:

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Recorded Music	26	24	16
Music Publishing	24	24	18
	50	48	34

The split of exceptional items and amortisation of goodwill and copyrights by origin is as follows:

	1999 (£ million)	1998 (£ million)	1997 (£ million)
North America	33	37	18
Europe	15	9	14
Asia	1	1	1
Other	1	1	1
	50	48	34

Turnover by destination is not considered to be materially different to turnover by origin, therefore no separate disclosure has been given.

The reconciliation of operating assets to net assets is as follows:

	Note	1999 (£ million)	1998 (£ million)	1997 (£ million)
Operating assets		302	250	251
Tax payable		(43)	(54)	(24)
Capital employed		259	196	227
Loans to joint venture	11	291	271	274
Accrued interest on loans to joint venture	11	94	67	48
Net funds	14	87	69	48
Net assets including minority interests		731	603	597

2. Operating profit

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Operating profit is stated after charging:			
Amortisation of copyrights	21	22	18
Amortisation of goodwill	6	3	—
Depreciation of tangible fixed assets	46	43	50
Rental income	3	1	2
Operating lease rentals:			
Property	28	24	27
Plant, equipment and vehicles	5	6	6
Year 2000 costs	11	6	—

3. Fees to auditors

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Audit fees paid to Ernst & Young:	2	2	2
Consultancy fees paid to Ernst & Young:	15	8	5
	17	10	7

4. Staff costs

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Staff costs:			
Wages and salaries	322	326	296
Social security costs	35	32	31
Other pension costs (see Note 24)	15	18	17
	372	376	344

Warner Music Group is a division of Warner Communications Inc., a US company, and has no directors whose emoluments require disclosure. Staff costs include the full cost of management remuneration. None of the proposed directors of Warner EMI Music received any remuneration for their services with respect to Warner Music Group.

5. Finance Charges

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Interest payable on:			
Bank overdrafts and loans	1	—	—
Loans from parent companies	20	18	19
Other	7	6	6
	28	24	25
Interest receivable from:			
Joint ventures	(24)	(24)	(24)
Other Time Warner entities	(13)	(13)	(14)
	(37)	(37)	(38)
Group net finance income	(9)	(13)	(13)
Joint venture net finance charges	28	30	32
Total net finance charges	19	17	19

Included in other interest payable is £1 million (1998: £2 million; 1997: £2 million) relating to finance charges on finance leases.

6. Taxation

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Taxation on profit on ordinary activities:			
United States:			
Federal taxation	48	40	67
State and local taxes	10	10	15
Federal foreign tax relief	(36)	(27)	(41)
	22	23	41
Foreign taxation:			
Income tax	50	59	41
Withholding taxes	17	12	17
Deferred taxation:			
Foreign	(3)	—	4
Adjustment to current taxation in respect of earlier years	(6)	—	—
	80	94	103
Taxation borne by Warner Music Group in respect of joint venture	(8)	1	2
Total	72	95	105

No US or foreign withholding taxes have been recorded by Warner Music Group on the permanently reinvested earnings of foreign subsidiaries aggregating approximately £308 million (1998: £286 million; 1997: £270 million). If such earnings were to be repatriated, it is expected that any additional US income tax would be offset by the utilisation of the accompanying foreign tax credits.

The differences between the income taxes expected for Warner Music Group at the US federal statutory income tax rate and the total income taxes provided are as follows:

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Taxes on income at US Federal statutory rate	64	71	73
Non-deductible amortisation and expenses	1	2	2
Foreign income taxed at different rates, net of US foreign tax credits	(20)	4	16
Foreign losses for which no relief has been recognised	20	11	4
State and local taxes, net	7	7	10
Total	72	95	105

7. Exceptional items

(i) Operating exceptional items

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Restructuring costs – Warner Music Group	20	21	16
Costs of integration and other	3	2	—
	23	23	16
Restructuring costs – joint ventures	—	2	—
	23	25	16

The attributable taxation credit relating to operating exceptional items is £9 million (1998: £10 million; 1997: £6 million).

(ii) Non-operating exceptional items

The attributable taxation charge relating to non-operating exceptional items is £3 million (1998: nil; 1997: £5 million).

8. Music Copyrights

	(£ million)
Cost at 1 January 1997	576
Currency retranslation	14
Additions	13
Cost at 31 December 1997	603
Currency retranslation	(7)
Acquisition of businesses	3
Additions	42
Cost at 31 December 1998	641
Currency retranslation	13
Acquisition of businesses	1
Additions	14
Cost at 31 December 1999	669
Amortisation at 1 January 1997	(466)
Currency retranslation	(16)
Charge for year	(18)
Amortisation at 31 December 1997	(500)
Currency retranslation	4
Charge for year	(22)
Amortisation at 31 December 1998	(518)
Currency retranslation	(14)
Charge for year	(21)
Amortisation at 31 December 1999	(553)
Net book values at 31 December 1999	116
31 December 1998	123
31 December 1997	103

9. Goodwill (capitalised)

	(£ million)
Cost at 1 January 1998	—
Acquisition of businesses	56
Cost at 31 December 1998	56
Current retranslation	(2)
Adjustments to goodwill*	9
Acquisition of businesses	141
Cost at 31 December 1999	204
Amortisation at 1 January 1998	—
Charge for year	(3)
Amortisation at 31 December 1998	(3)
Charge for year	(6)
Amortisation at 31 December 1999	(9)
Net book values at 31 December 1999	195
31 December 1998	53
31 December 1997	—

* *Adjustments to goodwill relate to a revision of the estimate for contingent consideration payable on the redemption of the non-Warner Music Group partner's 50 per cent. interest in the Rhino Entertainment Company partnership in 1998.*

10. Tangible fixed assets

	Freehold property (£ million)	Leasehold property (£ million)	Machinery, equipment, furniture & fixtures (£ million)	Assets in the course of construction (£ million)	Total (£ million)
Cost at 1 January 1997	41	123	334	32	530
Currency retranslation	—	2	(13)	—	(11)
Transfers in/(out)	—	8	4	(12)	—
Additions	2	9	35	3	49
Disposals	(2)	(16)	(34)	—	(52)
Cost at 31 December 1997	41	126	326	23	516
Currency retranslation	—	(1)	(3)	—	(4)
Transfers in/(out)	—	—	3	(3)	—
Additions	—	7	25	21	53
Disposals	—	(10)	(60)	—	(70)
Cost at 31 December 1998	41	122	291	41	495
Currency retranslation	1	1	(3)	1	—
Acquisition of businesses	—	4	—	—	4
Transfers in/(out)	—	4	23	(27)	—
Additions	—	—	51	32	83
Disposals	—	(4)	(21)	—	(25)
Cost at 31 December 1999	42	127	341	47	557
Depreciation at 1 January 1997	(9)	(43)	(226)	—	(278)
Currency retranslation	—	2	11	—	13
Charge for year	(1)	(11)	(38)	—	(50)
Disposals	1	6	28	—	35
Depreciation at 31 December 1997	(9)	(46)	(225)	—	(280)
Currency retranslation	—	—	(1)	—	(1)
Charge for year	(2)	(9)	(32)	—	(43)
Disposals	—	8	57	—	65
Depreciation at 31 December 1998	(11)	(47)	(201)	—	(259)
Currency retranslation	—	—	3	—	3
Charge for year	(2)	(9)	(35)	—	(46)
Disposals	—	3	19	—	22
Depreciation at 31 December 1999	(13)	(53)	(214)	—	(280)
Net book value at 31 December 1999	29	74	127	47	277
31 December 1998	30	75	90	41	236
31 December 1997	32	80	101	23	236

Freehold property includes land having a cost of £17 million (1998: £17 million; 1997: £17 million) which is not depreciated.

	1999 (£ million)	1998 (£ million)	1997 (£ million)
The net book values shown above include the following:			
Long-term leasehold property	4	5	4
Short-term leasehold property	70	70	76
Finance lease assets*	5	3	10

* *Finance lease assets consist of machinery, equipment, furniture and fixtures.*

11. Fixed Asset Investments

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Investments comprise:			
Other investments	5	4	9
Joint ventures	66	81	97

All investments are unlisted.

(i) Joint ventures

Total joint ventures

	Net equity investment (£ million)	Goodwill written off (£ million)	Share of net assets (liabilities) (£ million)	Loans (£ million)	Accrued interest receivable (£ million)	Net book value (£ million)
At 1 January 1997	(19)	(155)	(174)	263	24	113
Operating profit	26	—	26	—	—	26
Interest expense	(32)	—	(32)	—	—	(32)
Disposals	(2)	—	(2)	—	—	(2)
Additions	1	—	1	—	—	1
Dividends	(33)	—	(33)	—	—	(33)
Interest receivable on loan	—	—	—	—	24	24
Exchange taken to reserves	(5)	(6)	(11)	11	—	—
At 31 December 1997	(64)	(161)	(225)	274	48	97
Operating profit	28	—	28	—	—	28
Interest expense	(30)	—	(30)	—	—	(30)
Disposals	(3)	—	(3)	—	—	(3)
Additions	2	—	2	—	—	2
Dividends	(28)	—	(28)	—	—	(28)
Other movements**	5	—	5	—	—	5
Interest receivable on loan	—	—	—	—	24	24
Interest received	—	—	—	—	(5)	(5)
Exchange taken to reserves	(8)	2	(6)	(3)	—	(9)
At 31 December 1998	(98)	(159)	(257)	271	67	81
Operating loss	(10)	—	(10)	—	—	(10)
Non-operating profit	6	—	6	—	—	6
Interest expense	(28)	—	(28)	—	—	(28)
Dividends	(19)	—	(19)	—	—	(19)
Other movements*	(3)	—	(3)	—	—	(3)
Additions and new loans	—	—	—	12	—	12
Interest receivable on loan	—	—	—	—	24	24
Exchange taken to reserves	(3)	(5)	(8)	8	3	3
At 31 December 1999	(155)	(164)	(319)	291	94	66

* *Relates to the reversal of the investment in China Records following the purchase of the remaining 50 per cent. of the share capital in 1999.*

** *Relates to the reversal of the investment in Rhino Entertainment Company following redemption of the non-Warner Music Group partner's 50 per cent. interest in 1998.*

Included within the above are the following amounts relating to Warner Music Group's investments in Columbia House, a material joint venture.

	Net equity investment (£ million)	Goodwill written off (£ million)	Share of net assets (liabilities) (£ million)	Loans (£ million)	Accrued interest receivable (£ million)	Net book value (£ million)
At 1 January 1997	(53)	(152)	(205)	263	24	82
Operating profit	29	—	29	—	—	29
Interest expense	(31)	—	(31)	—	—	(31)
Dividends	(24)	—	(24)	—	—	(24)
Exchange taken to reserves	(1)	(6)	(7)	11	—	4
Interest receivable on loan	—	—	—	—	24	24
At 31 December 1997	(80)	(158)	(238)	274	48	84
Operating profit	25	—	25	—	—	25
Interest expense	(29)	—	(29)	—	—	(29)
Dividends	(26)	—	(26)	—	—	(26)
Exchange taken to reserves	1	3	4	(3)	—	1
Interest receivable on loan	—	—	—	—	24	24
Interest received	—	—	—	—	(5)	(5)
At 31 December 1998	(109)	(155)	(264)	271	67	74
Operating loss	(7)	—	(7)	—	—	(7)
Non-operating profit	6	—	6	—	—	6
Interest expense	(28)	—	(28)	—	—	(28)
Dividends	(18)	—	(18)	—	—	(18)
Exchange taken to reserves	(1)	(5)	(6)	8	3	5
Interest receivable on loan	—	—	—	—	24	24
At 31 December 1999	(157)	(160)	(317)	279	94	56

Included within turnover are amounts relating to Columbia House of £306 million (1998: £317 million; 1997: £348 million).

The taxation credited for the year relating to Columbia House was £8 million (1998: charged £1 million; 1997: charged £2 million).

Under the terms of the Combination Agreement, substantially all of the profits and losses arising from this investment in Columbia House will be allocated to Time Warner.

(ii) Share of net assets – Joint ventures

Total joint ventures

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Fixed assets	32	29	32
Current assets	318	291	319
Total assets	350	320	351
Short-term liabilities	(310)	(217)	(190)
Long-term liabilities	(359)	(360)	(386)
Total liabilities	(669)	(577)	(576)
Share of net liabilities	(319)	(257)	(225)
Loan from Warner Music Group	291	271	274
Interest accrued on loan from Warner Music Group	94	67	48
Loans and accrued interest	385	338	322
Net book value	66	81	97

Included within the above are the following amounts relating to Columbia House, a material joint venture.

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Fixed assets	28	23	23
Current assets	281	245	263
Total assets	309	268	286
Short-term liabilities	(268)	(173)	(141)
Long-term liabilities	(358)	(359)	(383)
Total liabilities	(626)	(532)	(524)
Share of net liabilities	(317)	(264)	(238)
Loan from Warner Music Group	279	271	274
Accrued interest on loan from Warner Music Group	94	67	48
Loans and accrued interest	373	338	322
Net book value	56	74	84

(iii) Other investments

	Cost of shares (£ million)
At 1 January 1997	13
Additions	3
Disposals	(7)
At 31 December 1997	9
Disposals	(5)
At 31 December 1998	4
Currency retranslation	1
At 31 December 1999	5

12. Stocks

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Raw materials and components	18	14	17
Work in progress	5	5	3
Finished goods	73	69	60
	96	88	80

13. Debtors

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Due within one year:			
Trade debtors	945	864	706
Amounts owed by other Time Warner entities	4	—	—
Amounts owed by joint venture	125	55	23
Other debtors	99	60	89
Prepayments and accrued income	355	320	327
	1,528	1,299	1,145
Due after more than one year:			
Other debtors	15	16	15
Loan notes receivable	2	2	3
	17	18	18
	1,545	1,317	1,163

14. Borrowings

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Long-term borrowings:			
Loans	3	4	7
Finance leases	5	6	8
Less: repayable within one year	(3)	(3)	(3)
Total long-term borrowings	5	7	12
Short-term borrowings			
Overdrafts	31	38	23
Short-term loans from Time Warner entities	161	161	128
Finance leases	1	2	2
Short-term element of long-term loans	2	1	1
Total short-term borrowings	195	202	154
Total borrowings	200	209	166
Liquid funds:			
Current asset investments	(141)	(146)	(118)
Cash at bank and in hand	(146)	(132)	(96)
Net funds	(87)	(69)	(48)

Under Warner Music Group's banking arrangements, overdraft and cash balances of certain subsidiaries are pooled or offset and cross-guaranteed. Such pooling and offsets are reflected in the combined balance sheet as appropriate.

Warner Music Group borrowings include £5 million (1998: £6 million; 1997: £8 million) which is secured on assets held under finance leases.

Maturity analysis of long-term borrowings

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Amounts falling due after more than one year are repayable as follows:			
Between one and two years	2	3	3
Between two and five years	3	3	7
After five years	—	1	2
	5	7	12

15. Derivatives and other financial instruments

Warner Music Group's treasury activities are controlled and monitored by Time Warner's treasury department. Its financial instruments comprise derivatives, borrowings, cash and liquid resources and other financial assets and liabilities, including certain debtors, creditors and provisions. The main purpose of these financial instruments is to raise finance for Warner Music Group's operations. Time Warner's treasury policies specifically prohibit the use of financial instruments for speculative purposes.

The purpose of treasury policies is to ensure that adequate, cost-effective funding is available to Warner Music Group at all times and that exposure to financial risk is minimised. The principal financial risks arising from Warner Music Group's financial instruments are funding risk, interest rate risk and foreign currency risk.

Warner Music Group funding is currently managed via the use of short-term loans from Time Warner entities and through participation in the Time Warner cash pooling scheme. Cash and loans are drawn down as required and do not have specific limits. Loans on which interest is paid attract interest mainly at floating rates. All cash pooling amounts attract interest at floating rates.

Due to the international nature of its operations, Warner Music Group faces currency exposure in respect of exchange fluctuations. It is Warner Music Group's policy not to hedge balance sheet translation exposures or profit and loss account transaction exposures. Warner Music Group does, however, hedge certain transaction exposures related to royalty income streams. These royalty income streams are hedged where deemed appropriate and where they can be reliably forecast with the use of forward exchange contracts.

Warner Music Group has excluded all short-term debtors and creditors from the following disclosures other than the currency exposures as permitted by FRS13.

(i) Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of Warner Music Group as at 31 December 1999 was:

	Total* (£ million)	Floating rate financial liabilities (£ million)	Financial liabilities on which no interest is paid (£ million)	Fixed rate financial liabilities (£ million)
US Dollar	131	28	57	46
Euro	72	60	12	—
Yen	83	83	—	—
Australian Dollar	10	10	—	—
Other	25	10	15	—
Total	321	191	84	46

* *Excludes short-term creditors as permitted by FRS13.*

The US Dollar floating rate financial liability comprises deferred consideration on which interest is payable at Prime +¼ per cent. Other floating rate financial liabilities relate to short-term loans on which interest is payable at LIBOR +½ per cent.

The financial liabilities on which no interest is payable have a weighted average maturity of 5 years.

£33 million of the fixed rate financial liabilities relates to the deferred consideration, which matures in March 2002 and bears interest at 5 per cent. The remaining £13 million relates to various long-term loans with a weighted average maturity of 2.7 years and a weighted average interest rate of 5.1 per cent.

The interest rate profile of the financial liabilities of Warner Music Group as at 31 December 1998 was:

	Total* (£ million)	Floating rate financial liabilities (£ million)	Financial liabilities on which no interest is paid (£ million)	Fixed rate financial liabilities (£ million)
US Dollar	111	17	49	45
Deutschmark	96	83	13	—
Yen	53	53	—	—
Australian Dollar	12	11	1	—
Other	45	23	22	—
Total	317	187	85	45

* *Excludes short-term creditors as permitted by FRS13.*

The US Dollar floating rate financial liability comprises deferred consideration on which interest is payable at Prime +¼ per cent. Other floating rate financial liabilities relate to short term loans on which interest is payable at LIBOR +¼ per cent.

The financial liabilities on which no interest is payable have a weighted average maturity of 5 years.

£35 million of the fixed rate financial liability relates to the deferred consideration, which matures in March 2002 and bears interest at 5 per cent. The remaining £10 million relates to various long term loans with a weighted average maturity of 3.3 years and a weighted average interest rate of 6.1 per cent.

The interest rate profile of the financial liabilities of Warner Music Group as at 31 December 1997 was:

	Total* (£ million)	Floating rate financial liabilities (£ million)	Financial liabilities on which no interest is paid (£ million)	Fixed rate financial liabilities (£ million)
US Dollar	75	—	62	13
Deutschmark	90	82	8	—
Yen	17	17	—	—
Australian Dollar	16	15	1	—
Other	31	19	12	—
Total	229	133	83	13

* *Excludes short-term creditors as permitted by FRS13.*

The floating rate financial liabilities relate to short term loans on which interest is payable at LIBOR +¼ per cent.

The financial liabilities on which no interest is payable have a weighted average maturity of 5 years.

The fixed rate financial liabilities relate to various long term loans with a weighted average maturity of 5.8 years and a weighted average interest rate of 5.2 per cent.

(ii) Interest rate risk profile of financial assets

The interest rate profile of the financial assets of Warner Music Group as at 31 December 1999 was:

	Total* (£ million)	Floating rate financial assets (£ million)	Financial assets on which no interest is received (£ million)
Euro	132	116	16
Sterling	36	15	21
US Dollar	18	—	18
Yen	12	—	12
Mexican Peso	8	—	8
Australian Dollar	25	25	—
Other	78	25	53
Total	309	181	128

* *Excludes short-term debtors as permitted by FRS13.*

£141 million of the floating rate financial assets relates to short term loans on which interest is receivable at LIBOR – ½ per cent. The remaining £40 million relates to cash balances bearing interest as determined by the applicable bank reference rate in the relevant country.

The financial assets on which no interest is received have a weighted average maturity of 1 year. The amount included in other consists of immaterial balances in 20 different currencies.

The interest rate profile of the financial assets of Warner Music Group as at 31 December 1998 was:

	Total* (£ million)	Floating rate financial assets (£ million)	Financial assets on which no interest is received (£ million)
Guilder	82	78	4
Italian Lire	11	11	—
Spanish Peseta	11	11	—
Austrian Schilling	20	14	6
US Dollar	33	—	33
Australian Dollar	28	28	—
Sterling	8	8	—
Other	107	34	73
Total	300	184	116

* *Excludes short-term debtors as permitted by FRS13.*

£146 million of the floating rate financial assets relates to short term loans on which interest is receivable at LIBOR – ¼ per cent. The remaining £38 million relates to cash balances bearing interest as determined by the applicable bank reference rate in the relevant country.

The financial assets on which no interest is received have a weighted average maturity of 1 year. The amount included in other consists of immaterial balances in 35 different currencies.

The interest rate profile of the financial assets of Warner Music Group as at 31 December 1997 was:

	Total* (£ million)	Floating rate financial assets (£ million)	Financial assets on which no interest is received (£ million)
Guilder	55	52	3
Italian Lire	16	16	—
Spanish Peseta	8	8	—
Austrian Schilling	12	12	—
US Dollar	44	—	44
Sterling	6	6	—
Other	100	29	71
Total	241	123	118

* *Excludes short-term debtors as permitted by FRS13.*

£118 million of the floating rate financial assets relates to short term loans on which interest is receivable at LIBOR – ¼ per cent. The remaining £5 million relates to cash balances bearing interest as determined by the applicable bank reference rate in the relevant country.

The financial assets on which no interest is received have a weighted average maturity of 1 year. The amount included in other consists of immaterial balances in 35 different currencies.

(iii) Currency exposures

The table below shows Warner Music Group's currency exposures, being those trading assets and liabilities (or non-structural exposures) that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of Warner Music Group that are not denominated in the operating (or "functional") currency of the operating unit involved. At 31 December 1999, 31 December 1998 and 31 December 1997, these exposures were as follows:

	Net foreign currency monetary assets (all US Dollars)		
Functional currency of operation	**1999** (£ million)	**1998** (£ million)	**1997** (£ million)
Sterling	1	—	—
Mexican Peso	6	4	6
Guilder	2	6	10
Brazilian Real	5	6	5
Hong Kong Dollar	—	—	5
Total	14	16	26

(iv) Maturity of financial liabilities

The maturity profile of Warner Music Group's financial liabilities, other than short-term creditors such as trade creditors and accruals, at 31 December 1999, 31 December 1998 and 31 December 1997 was as follows:

	1999 (£ million)	1998 (£ million)	1997 (£ million)
In one year or less, or on demand	195	202	154
In more than one year but not more than two years	2	3	13
In more than two years but not more than five years	90	74	26
In more than five years	34	38	36
	321	317	229

(v) Undrawn facilities

Warner Music Group companies operate as part of various Time Warner cash pooling arrangements under which borrowing facilities are available which do not have specific limits.

(vi) Fair values of financial assets and financial liabilities

The majority of borrowings, and liquid funds are short-term in nature and book values approximate to fair values. For all other financial assets and financial liabilities book values approximate to fair values.

(vii) Hedges

In 1998 and 1999 Warner Music Group began to hedge exchange rate risk on royalty income streams using forward currency contracts. Unrecognised and deferred gains and losses on instruments used for hedging are immaterial. Warner Music Group does not hedge interest rate risk.

16. Cash Liquid Resources and Financing

The following definitions have been used:

Cash: Cash in hand and deposits repayable on demand if available within 24 hours without penalty and including overdrafts.

Liquid resources: Investments and deposits, other than those included as cash, which are readily convertible into known amounts of cash.

Financing: Borrowings less overdrafts which have been treated as cash.

Analysis of movement in Warner Music Group's net borrowings in the year ended 31 December 1999

	At 1 January 1999 (£ million)	Cash flow (£ million)	Reclasses (£ million)	Exchange movement (£ million)	At 31 December 1999 (£ million)
Cash at bank and in hand	132	11	—	3	146
Overdrafts	(38)	7	—	—	(31)
Cash	94	18	—	3	115
Debt due after more than one year	(3)	—	3	(1)	(1)
Debt due within one year	(1)	1	(3)	1	(2)
Short term loans from Time Warner entities	(161)	3		(3)	(161)
Finance leases	(6)	1	—	—	(5)
Financing	(171)	5	—	(3)	(169)
Current asset investments*	146	(10)	—	5	141
Liquid resources	146	(10)	—	5	141
Total	69	13	—	5	87

* *Current asset investments relate to various interest bearing loans to Time Warner entities which mature within one year.*

Cash flow on financing of £5 million is split between new short term loans taken out of £162 million, short term loans repaid of £166 million and capital element of finance leases repaid of £1 million.

Analysis of movement in Warner Music Group's net borrowings in the year ended 31 December 1998

	At 1 January 1998 (£ million)	Cash flow (£ million)	Reclasses (£ million)	Exchange movement (£ million)	At 31 December 1998 (£ million)
Cash at bank and in hand	96	37	—	(1)	132
Overdrafts	(23)	(16)	—	1	(38)
Cash	73	21	—	—	94
Debt due after more than one year	(6)	1	3	(1)	(3)
Debt due within one year	(1)	2	(3)	1	(1)
Short term loans from Time Warner entities	(128)	(32)	—	(1)	(161)
Finance leases	(8)	2	—	—	(6)
Financing	(143)	(27)	—	(1)	(171)
Current asset investments*	118	31		(3)	146
Liquid resources	118	31	—	(3)	146
Total	48	25	—	(4)	69

* *Current asset investments relate to various interest bearing loans to Time Warner entities which mature within one year.*

Cash flow on financing of £(27) million is split between new short term loans of £159 million, short term loans repaid of £129 million long term loans repaid of £1 million and capital elements of finance leases repaid of £2 million.

Analysis of movement in Warner Music Group's net borrowings in the year ended 31 December 1997

	At 1 January 1997 (£ million)	Cash flow (£ million)	Reclasses (£ million)	Exchange movement (£ million)	At 31 December 1997 (£ million)
Cash at bank and in hand	80	15	—	1	96
Overdrafts	(4)	(19)	—	—	(23)
Cash	76	(4)	—	1	73
Debt due after more than one year	(8)	2	1	(1)	(6)
Debt due within one year	(5)	5	(1)	—	(1)
Short term loans from Time Warner entities	(109)	(20)		1	(128)
Finance leases	(9)	1	—	—	(8)
Financing	(131)	(12)	—	—	(143)
Current asset investments*	100	17	—	1	118
Liquid resources	100	17	—	1	118
Total	45	1	—	2	48

* *Current asset investments relate to various interest bearing loans to Time Warner entities which mature within one year.*

Cash flow on financing of £(12) million is split between new short term loans taken out of £129 million, short term loans repaid of £114 million, long term loans repaid of £2 million and capital element of finance leases repaid of £1 million.

17. Other creditors

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Trade creditors	661	618	570
Amounts owed to other Time Warner entities	395	272	211
Amounts owed to joint ventures	11	19	26
Corporate taxation	43	54	24
Other taxes including VAT and social security costs	35	26	28
Other creditors, accruals and deferred income	375	250	205
	1,520	1,239	1,064
Due after more than one year:			
Deferred consideration	61	52	—
Other creditors	40	34	45
	101	86	45
	1,621	1,325	1,109

18. Deferred taxation

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Excess of accumulated taxation allowances over depreciation provided against tangible fixed assets	—	—	—
Net operating loss carryforwards	—	—	—
Other timing differences	1	4	5
	1	4	5
Movement during the year:			
At 1 January 1997			1
Charged to profit on ordinary activities			4
At 31 December 1997			5
Other movements			(1)
At 31 December 1998			4
Other movements			(3)
At 31 December 1999			1

Warner Music Group and its ultimate parent, Time Warner, have operated under a tax sharing agreement, whereby Warner Music Group have been liable, on a current basis, to Time Warner for its total US income taxes. Accordingly, there are no US deferred taxes on Warner Music Group's balance sheet. In the absence of this tax sharing agreement, Warner Music Group would have had a US deferred tax liability of approximately £8 million (1998: £2 million; 1997: £4 million).

Unprovided deferred tax at 31 December 1999 is as follows:

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Excess of accumulated allowances over depreciation provided against tangible fixed assets	9	14	9
Net operating loss carryforwards	(41)	(20)	(8)
Other timing differences	(42)	(52)	(43)
	(74)	(58)	(42)

19. Other provisions for liabilities and charges

	Trading (£ million)
At 1 January 1997	26
Currency retranslation	1
Provisions utilised	(15)
Charged against operating profit	13
As 31 December 1997	25
Currency retranslation	—
Provisions utilised	(7)
Charged against operating profit	21
At 31 December 1998	39
Currency retranslation	—
Provisions utilised	(13)
Charged against operating profit	8
At 31 December 1999	34

Trading provisions comprise royalty audit provisions and restructuring provisions charged through operating profit. These are expected to mature within a 5 year period.

20. Share capital and additional paid in capital

Ordinary Shares in issue	Ordinary share capital (£ million)	Additional paid in capital (£ million)
At 1 January 1997	17	623
Shares issued during the year	38	—
Net capital contributions	—	5
At 31 December 1997	55	628
At 31 December 1998	55	628
At 31 December 1999	55	628

Share capital and additional paid in capital consists of the combined share capital and additional paid in capital amounts of the entities comprising Warner Music Group.

21. Reserves and amounts transferred to parent

	Profit and loss reserve (£ million)	Amounts transferred to parent (£ million)
At 1 January 1997	664	(835)
Currency translation	35	—
Profit attributable to members of Warner Music Group	103	—
Dividends*	(48)	—
Movement for the year	—	(7)
At 31 December 1997	754	(842)
Currency translation	(20)	—
Disposals of businesses	(6)	—
Profit attributable to members of Warner Music Group	106	—
Dividends*	(17)	—
Movement for the year	—	(56)
At 31 December 1998	817	(898)
Currency translation	17	—
Profit attributable to members of Warner Music Group	99	—
Dividends*	(17)	—
Movement for the year	—	28
At 31 December 1999	916	(870)

* *All dividends were paid in the year.*

The Warner Music Group profit and loss reserve includes £327 million (1998: £327 million; 1997: £327 million) in respect of goodwill previously written off.

The amounts transferred to parent represent the net amount of surplus funds transferred to and from the immediate parent undertaking.

22. Financial commitments

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Capital expenditure: Contracted	32	12	5

Warner Music Group has commitments which are largely performance related to pay advances to artists and repertoire owners amounting to approximately £503 million at 31 December 1999 (1998: £454 million; 1997: £449 million).

Annual commitments under operating leases at 31 December were as follows:

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Land and buildings:			
Expiring in the first year	7	6	6
Expiring in the second to fifth years inclusive	20	15	14
Expiring after the fifth year	7	6	5
	34	27	25
Machinery, equipment, furniture and fixtures:			
Expiring in the first year	1	1	2
Expiring in the second to fifth years inclusive	3	3	4
Expiring after the fifth year	—	—	—
	4	4	6
	38	31	31

23. Contingent liabilities

Warner Music Group is subject to several private civil lawsuits in the US alleging violations of antitrust, unfair trade practices and consumer protection laws. These actions include (i) lawsuits brought by retailers, which are currently pending in federal court in California, alleging that the major record companies violated federal antitrust laws in setting wholesale prices of CDs, and (ii) several putative class action lawsuits brought by consumers, which have been filed in various federal and state courts, alleging violations of antitrust, unfair trade practices and consumer protection statutes in several jurisdictions. In addition, Warner Music Group is the subject of a currently open investigation by the Florida State Attorney General, which has involved other State Attorneys General, to determine whether there is, has been, or may be conduct that violates state antitrust and unfair trade practices laws. Warner Music Group management believes all such claims to be without any merit. Adverse verdicts in these matters, however, could result in material losses to Warner Music Group. Due to the lack of specificity of plaintiffs' claims, the procedural position in the cases and the investigation, and other factors, a range of potential loss is not determinable at this time.

Management are not aware of any other legal or arbitration proceedings pending or threatened against any member of Warner Music Group which may have any liability significantly in excess of provisions in the accounts.

Warner Music Group's immediate holding company, Warner Communications Inc., as a general partner in Time Warner Entertainment Company, L.P. ("TWE"), has guaranteed approximately £2 billion of TWE's debt and accrued debt at 31 December 1999.

24. Pension arrangements

Prior to 1999, Warner Music Group funded defined benefit pension plans covering substantially all of its US employees. Pension benefits under those plans were based on formulae that reflected the employees' years of service and compensation levels during their employment period. Effective 1 January 1999, substantially all of Warner Music Group's plans were merged into the defined benefit pension plans of Time Warner which had assets with a market value of £1,057 million at 31 December 1999 under the projected unit method, which was sufficient to cover 115 per cent. of the value of benefits that have accrued to members, after allowing for assumed increases in earnings. For 1999, Warner Music Group made contributions of £1 million and recognised expense of £9 million based on the most recent actuarial valuation related to its US employees covered under all defined benefit plans. For the years ended 31 December 1998 and 1997, when Warner Music Group was a plan sponsor, Warner Music Group retained a qualified actuary to perform an evaluation of its US pension plans as at 1 January 1999 and at 1 January 1998. The market value of the assets of the plans was £114 million as at 31 December 1998 and £89 million as at 31 December 1997. The actuarial value of the assets was sufficient to cover 117 per cent. at 31 December 1998 and 119 per cent. at 31 December 1997 using the projected unit method of the value of benefits that had accrued to members, after allowing for assumed increases in earnings.

Warner Music Group recognised pension expense of £10 million in 1998 and £8 million in 1997. Pension expense was calculated in accordance with United States Financial Accounting Standards Board ("FASB") Statement No. 87, "*Employers' Accounting for Pensions*", which approximates to the treatment under Statement of Standard Accounting Practice 24 "*Accounting for Pension Costs*" (SSAP 24). The long-term weighted average financial assumptions used to calculate employer expense are shown below:

	1999	1998	1997
Discount rate	7.75%	6.75%	7.25%
Expected return on plan assets	9%	9%	9%
Rate of compensation increase	6%	6%	6%

The remaining few Warner Music Group-sponsored plans relating to its US operations are not considered material to the combined financial statements of Warner Music Group.

In addition to its US employees, employees of Warner Music Group's operations in non-US countries participate to varying degrees in local pension plans, most of which are defined contribution plans. Warner Music Group recognised an expense relating to these plans of £6 million in 1999 (1998: £8 million; 1997: £9 million). Amounts provided in the balance sheet relating to these plans totalled £14 million in 1999 (1998: £16 million; 1997: £15 million).

25. Purchase of Businesses

Year ended 31 December 1999

On 30 December 1999, Warner Music Group purchased London Records for a total cash consideration of £140 million.

	Fair value to Warner Music Group (£ million)
Music copyrights	1
Tangible fixed assets	4
Debtors	3
Cash	20
Creditors	(22)
Net assets acquired	6
Goodwill capitalised	134
Satisfied by deferred consideration payable	140

London Records was acquired from a discretionary trust, of which Roger Ames, Chairman and Chief Executive Officer of Warner Music Group, is a beneficiary. The trust has an option to reacquire London Records at fair market value under certain circumstances where Roger Ames ceases to be employed by Warner Music Group.

London Records has a year end of 31 December and recorded a profit after tax for the period to 29 December 1999 of £7 million (1998: £1 million).

In the year ended 31 December 1999, Warner Music Group made various other acquisitions, including China Records and the remaining share of Fonit Cetra. The table below summarises those acquisitions considered to be not material enough for separate disclosure.

	Book value of assets acquired (£ million)	Adjustments (£ million)	Fair value to Warner Music Group (£ million)
Debtors	3	(3)	—
Creditors	(2)	—	(2)
Net liabilities acquired	1	(3)	(2)
Goodwill capitalised			7
Satisfied by cash consideration			5

The adjustments to book value of £3 million were made to bring the valuation of the assets acquired in line with Warner Music Group's accounting policies.

Year ended 31 December 1998

On 1 January 1998, the non-Warner Music Group partner's 50 per cent. interest in the Rhino Entertainment Company partnership ("Rhino") was redeemed for a total contingent consideration, estimated at that time, at £52 million. Goodwill arising on the redemption has been capitalised in accordance with Warner Music Group's accounting policy.

	Fair value to Warner Music Group (£ million)
Music copyrights	3
Stocks	7
Debtors	4
Creditors	(21)
Provisions for liabilities and charges	(2)
Net liabilities acquired	(9)
Reversal of existing investment balance	5
Goodwill capitalised	56
Satisfied by deferred consideration payable	52

During 1998, turnover of £67 million and operating profit of £10 million were attributable to Rhino, following its redemption. It recorded a pre-redemption profit after tax of £12 million for the year ended 31 December 1997.

In the year ended 31 December 1998, Warner Music Group made various other acquisitions including a majority stake in Fonit Cetra. The table below summarises those acquisitions considered to be not material enough for separate disclosure.

	Book value of assets acquired (£ million)	Adjustments (£ million)	Fair value to Warner Music Group (£ million)
Debtors	3	3	6
Cash	1	—	1
Creditors	(3)	—	(3)
Net assets acquired	1	3	4
Goodwill capitalised			—
Satisfied by cash consideration			4

The adjustments to book value of £3 million were made to bring the valuation of the assets acquired in line with Warner Music Group's accounting policies.

There were no acquisitions in 1997.

Goodwill arising on acquisitions in the year comprises:

	1999 (£ million)	1998 (£ million)	1997 (£ million)
Total consideration	145	56	—
Net cash acquired	(20)	(1)	—
	125	55	—
Fair value to Warner Music Group (before cash acquired)	16	1	—
Goodwill	141	56	—

26. Related party transactions

(i) Transactions with Time Warner Companies

In the normal course of conducting their businesses, Warner Music Group entities have had various transactions with Time Warner entities, generally on terms resulting from a negotiation between the affected entities that, in management's view, results in reasonable allocations. Employees of Warner Music Group participate in various Time Warner medical, share option and other benefit plans for which Warner Music Group is charged its allocated share of plan expenses, including administrative costs. In addition, Time Warner provides Warner Music Group with certain corporate services including accounting, taxation, treasury, legal, human resources and IT, for which Warner Music Group paid a fee. The cost of these benefit plans and corporate services were £50 million, £52 million and £44 million in 1999, 1998 and 1997, respectively. Additionally, Time Warner sweeps excess US dollar denominated cash from Warner Music Group. At the year end a total of £800 million had been transferred to Time Warner (1998: £846 million; 1997: £756 million). This is included in the balance sheet within "Amounts transferred to parent" within Capital and reserves.

Warner Music Group has various transactions with Warner Bros. Studios for packaging, distribution, invoicing and cash collection services relating to home video products, manufacture of various merchandise and promotional materials, and soundtrack exploitation. Revenues from these were £93 million, £96 million and £67 million in 1999, 1998 and 1997, respectively. Warner Music Group also paid music publishing royalties to Warner Bros. Studios of £6 million in each of 1999, 1998 and 1997. At the year end a total of £395 million was due to Warner Bros. Studios for all these activities (1998: £272 million; 1997: £211 million). This amount is included in the balance sheet within Creditors: amounts falling due within one year.

Warner Music Group manufactures and packages various music compilations for the Time Life Books and Music Division. Revenues from these transactions were £13 million, £14 million and £17 million in 1999, 1998 and 1997, respectively. At the year end a total of £70 million was available from Time Life Books (1998: £52 million; 1997: £86 million). This amount has been ceded to Time Warner and is included in the balance sheet within "Amounts transferred to parent" within Capital and reserves. Additionally, £4 million was included within Debtors: amounts falling due within one year (1998: £nil; 1997: £nil).

Warner Music Group loans surplus non-US dollar denominated cash to Time Warner Finance Ireland and receives interest at LIBOR – $\frac{1}{8}$ per cent. (1998 & 1997 LIBOR – $\frac{1}{4}$ per cent.). These loans all mature within 12 months of the year end. At the year end loans to Time Warner Finance Ireland totalled £141 million (1998: £146 million; 1997 £118 million). These amounts are included in the balance sheet as "Investments" within current assets. Interest receivable in the year was £13 million (1998: £13 million; 1997 £14 million). In addition, Warner Music Group also borrows non-US dollar denominated cash from Time Warner Finance Ireland and pays interest at LIBOR + $\frac{1}{2}$ per cent. (1998 & 1997 LIBOR + $\frac{1}{4}$ per cent.). These loans all mature within 12 months of the year end. At the year end loans from Time Warner Finance Ireland totalled £161 million (1998: £161 million; 1997: £128 million). These amounts are included in the balance sheet as "Borrowings" within Creditors: amounts falling due within one year. Interest payable in the year was £20 million (1998: £18 million; 1997: £19 million).

Warner Music Group operates cash pooling arrangements with other Time Warner entities in various countries with cross guarantees given to the extent of the Warner Music Group share of the cash balance in the relevant pool. Amounts included in the balance sheet as cash at the year end totalled £39 million (1998: £35 million; 1997: £6 million). Amounts included in the balance sheet as overdrafts at the year end totalled £2 million (1998: £9 million; 1997: £5 million). Interest income and interest payable on these balances included in the profit and loss account are not considered to be material.

(ii) Transactions with Joint Ventures

Warner Music Group has licensing agreements with Columbia House, its 50 per cent. owned joint venture. Licensing revenues from these agreements were £6 million (1998: £5 million; 1997: £7 million). Warner Music Group has agreements to manufacture cassettes and CDs for several of its joint ventures, including Columbia House. Revenues from these agreements were £60 million (1998: £61 million; 1997: £64 million). Net amounts owed by joint ventures at the year end totalled £114 million (1998: £36 million; 1997: £3 million owed to joint ventures). In addition, Warner Music Group has loans receivable from Columbia House totalling £279 million (1998: £271 million; 1997: £274 million) with accrued interest receivable of £94 million (1998: £67 million; 1997: £48 million) (see Note 11). Interest income for Warner Music Group on these loans was £24 million in each of 1999, 1998 and 1997.

27. Significant Investments

The businesses set out below are those which are part of Warner Music Group at 31 December 1999 and in the opinion of senior management significantly affected Warner Music Group's results and net assets during the 3 years then ended.

	Business	Location	Warner Music Group equity holding
Atlantic Recording Corporation	Recorded music	US	100 per cent.
CPP/Belwin, Inc.	Music publishing	US	100 per cent.
Elektra Entertainment Group Inc.	Recorded music	US	100 per cent.
Ivy Hill Corporation	Printing & packaging	US	100 per cent.
London Records 90 Limited*	Recorded music	UK	100 per cent.
London-Sire Records Inc.	Recorded music	US	100 per cent.
New Chappell Inc.	Music publishing	US	100 per cent.
Rhino Entertainment Company**	Recorded music	US	100 per cent.
Warner Bros. Music International Inc.	Music publishing	US	100 per cent.
Warner Bros. Publications U.S. Inc.	Music publishing	US	100 per cent.
Warner Bros. Records Inc.	Recorded music	US	100 per cent.
Warner/Chappell Music France S.A.	Music publishing	France	100 per cent.
Warner/Chappell Music GmbH	Music publishing	Germany	100 per cent.
Warner/Chappell Music, Inc.	Music publishing	US	100 per cent.
Warner/Chappell Music Italia S.p.A.	Music publishing	Italy	100 per cent.
Warner/Chappell Music Group (UK) Ltd.	Music publishing	UK	100 per cent.
Warner Custom Music Corp.	Music promotion	US	100 per cent.
Warner-Elektra-Atlantic Corporation	Music distribution	US	100 per cent.
Warner Music Australia Pty. Ltd.	Recorded music	Australia	100 per cent.
Warner Music Canada Ltd.	Music distribution	Canada	100 per cent.
Warner Music France S.A.	Recorded music	France	100 per cent.
Warner Music Germany GmbH	Recorded music	Germany	100 per cent.
Warner Music Group Inc.	Holding company	US	100 per cent.
Warner Music Italia S.r.L.	Recorded music	Italy	100 per cent.
Warner Music Japan Inc.	Recorded music	Japan	100 per cent.
Warner Music Manufacturing Europe GmbH	Manufacturing	Germany	100 per cent.
Warner Music Spain S.A.	Recorded music	Spain	100 per cent.
Warner Music UK Ltd.	Recorded music	UK	100 per cent.
Warner Special Products Inc.	Recorded music	US	100 per cent.
Warner-Tamerlane Publishing Corp.	Music publishing	US	100 per cent.
WB Music Corp.	Music publishing	US	100 per cent.
WCI Record Club Inc.	Record club	US	100 per cent.
WEA International Inc.	Music distribution	US	100 per cent.
WEA Manufacturing Inc.	Manufacturing	US	100 per cent.
The Columbia House Company (Canada)	Record club	Canada	50 per cent.
The Columbia House Company	Record club	US	50 per cent.
Maverick Recording Company	Recorded music	US	50 per cent.
Tommy Boy Music	Recorded music	US	50 per cent.

* *Acquired in the year ended 31 December 1999.*

** *Became fully owned in the year ended 31 December 1998.*

28. Post Balance Sheet Events

Warner EMI Music

On 24 January 2000, Time Warner and EMI Group plc announced a combination of their music businesses into a joint venture called Warner EMI Music which will be equally owned by Time Warner and EMI Group plc. Warner EMI Music will be structured as two jointly owned entities, with identical Boards co-chaired by Richard Parsons, President of Time Warner Inc. and Eric Nicoli, Chairman of EMI Group plc. The transaction is subject to certain conditions including EMI Group plc shareholder approval, regulatory consents and the UK Listing Authority's formal approval for EMI Group plc's continued listing.

Columbia House – CDnow Merger

In July, 1999, Warner Music Group announced an agreement with Sony Corporation of America to merge their jointly owned music and video club operations of Columbia House with CDnow, Inc., a music and video e-commerce company. On 13 March 2000, the parties terminated the agreement. Accordingly, the merger will not occur.

Time Warner – America Online Merger

In January 2000, Time Warner and America Online, Inc. ("AOL") announced that they had entered into an agreement to merge by forming a new holding company named AOL Time Warner Inc. The merger will create an integrated media and communications company that will combine Time Warner's media, entertainment and news brands and its cable infrastructure with AOL's internet franchises and technology. The transaction is subject to certain conditions, including regulatory and shareholder approvals, and is expected to close by the end of 2000.

29. Parent Undertaking and Controlling Party

Warner Music Group's immediate parent undertaking is Warner Communications Inc., which is incorporated in the US. Copies of its published accounts (Form 10-K), which include Warner Music Group, are available from 75 Rockefeller Plaza, New York, NY 10019.

Warner Music Group's ultimate parent undertaking and controlling party is Time Warner Inc., which is incorporated in the US. Copies of its group accounts, which include Warner Music Group, are available from 75 Rockefeller Plaza, New York, NY 10019.

Yours faithfully

Ernst & Young

Part 5 — Financial Information for EMI

The following financial information relating to EMI has been extracted, without material adjustment, from the audited financial statements of EMI for each of the two years ended 31 March 1999 and 2000.

The information relating to the year ended 31 March 1998 has been extracted, without material adjustment, from the comparatives of the audited financial statements of EMI for the year ended 31 March 1999. This was due to the adoption of the following standards, on 1 April 1998: FRS9 – Associates and Joint Ventures, FRS10 – Goodwill and Intangible Assets, FRS11 – Impairment of Fixed Assets and Goodwill, FRS12 – Provisions, Contingent Assets and Contingent Liabilities, FRS13 – Derivatives and Other Financial Instruments: Disclosures and FRS14 – Earnings per Share, which resulted in the restatement of the 31 March 1998 comparatives where appropriate.

The information does not constitute statutory accounts within the meaning of section 240 of the Act. Audited statutory accounts have been delivered to the registrar of companies for each of the two years ended 31 March 1998 and 1999 and will be delivered to the registrar in respect of the year ended 31 March 2000. Unqualified audit reports in accordance with sections 235 to 237 of the Act for each of the three years ended 31 March 1998, 1999 and 2000 have been given by Ernst & Young, Registered Auditors, of Becket House, 1 Lambeth Palace Road, London SE1 7EU, being auditors of EMI for the relevant financial periods.

The financial information included herein represents the businesses to be transferred to Warner EMI Music (EMI Music), together with EMI Retained Assets and EMI Retained Liabilities ("retained assets and liabilities").

The principal retained assets and liabilities are:

- EMI's investment in HMV Media, which is disclosed in the balance sheet as "Investments: joint venture (HMV Media)"; and
- dividends payable, which are included in the balance sheet within "Creditors: amounts falling due within one year – Other creditors", with further disclosure in Note 21.

Other retained assets and liabilities are included in the balance sheet within tangible fixed assets (excluded properties), other fixed asset investments (including Viva and Channel V), debtors (including tax balances and minimal amounts relating to new media investments at 31 March 2000), creditors (including tax balances), deferred tax and other provisions.

Included in the profit and loss account are amounts attributable to retained assets and liabilities, being principally HMV Media, which is identified on the face of the profit and loss account, and in addition, solely for the year ended 31 March 2000, new media income which is identified in Note 2.

In Part 6, Additional Financial Information on EMI Music, a balance sheet at 31 March 2000 and profit and loss statements for the three years ended 31 March 2000 are given for EMI Music (excluding retained assets and liabilities). Part 7, Pro Forma Financial Information for EMI and Warner EMI Music, illustrates, in more detail, how the Combination might have affected the financial information presented.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2000

	Notes	Total (£ million)	Joint venture HMV Media (£ million)
Turnover:			
Continuing operations (including joint venture)		2,965.0	578.5
Less: joint venture turnover		(578.5)	(578.5)
Group turnover	1	2,386.5	—
Cost of sales	2	(1,549.8)	—
Gross profit		836.7	—
Distribution costs	2	(124.7)	—
Administration expenses	2	(532.0)	—
Other operating income, net	2	72.0	—
Group operating profit	1&3	252.0	—
Share of operating profit in joint venture		27.7	27.7
Share of operating profits (losses) in associates		0.8	—
Total operating profit		280.5	27.7
Non-operating exceptional items:			
Profits (losses) on businesses disposed of or terminated	9	(9.9)	—
Profit on disposal of fixed asset investment	9	52.4	—
Profit before finance charges		323.0	27.7
Finance charges:			
Group (including associates)		(50.3)	—
Joint venture		(23.4)	(23.4)
Total finance charges	6	(73.7)	(23.4)
Profit on ordinary activities before taxation		249.3	4.3
Taxation on profit on ordinary activities	7	(73.0)	(2.6)
Profit on ordinary activities after taxation		176.3	1.7
Minority interests (equity)		(17.9)	—
Profit attributable to members of the Holding Company		158.4	1.7
Dividends (equity)	8	(125.1)	
Transfer (from) to profit and loss reserve		33.3	

Note: Reconciliation of adjusted earnings

	Notes
Earnings/basic EPS	10
Adjustments:	
Operating exceptional items	
Non-operating exceptional items	
Amortisation of goodwill and music copyrights	
Attributable taxation	
Minority interest (re: music copyright amortisation)	
Adjusted earnings/adjusted EPS	10
Adjusted dilution impact	
Adjusted earnings/adjusted diluted EPS	10

Year ended 31 March 2000: EMI Group (excluding HMV Media) Exceptional items and amortisation (£ million)	Year ended 31 March 2000: EMI Group (excluding HMV Media) Before exceptional items and amortisation (£ million)	Year ended 31 March 1999: EMI Group (excluding HMV Media) Before exceptional items and amortisation (£ million)	Year ended 31 March 1999: EMI Group (excluding HMV Media) Exceptional items and amortisation (£ million)	Year ended 31 March 1999: Joint venture HMV Media (£ million)	Year ended 31 March 1999: Total (£ million)
—	2,386.5	2,373.5	—	532.1	2,905.6
—	—	—	—	(532.1)	(532.1)
—	2,386.5	2,373.5	—	—	2,373.5
(33.5)	(1,516.3)	(1,528.4)	(26.9)	—	(1,555.3)
(33.5)	870.2	845.1	(26.9)	—	818.2
—	(124.7)	(123.1)	—	—	(123.1)
(5.1)	(526.9)	(486.7)	(0.4)	—	(487.1)
—	72.0	34.4	—	—	34.4
(38.6)	290.6	269.7	(27.3)	—	242.4
—	—	—	—	30.1	30.1
—	0.8	(0.7)	—	—	(0.7)
(38.6)	291.4	269.0	(27.3)	30.1	271.8
(9.9)	—	—	3.7	—	3.7
52.4	—	—	—	—	—
3.9	291.4	269.0	(23.6)	30.1	275.5
—	(50.3)	(44.4)	—	—	(44.4)
—	—	—	—	(27.6)	(27.6)
—	(50.3)	(44.4)	—	(27.6)	(72.0)
3.9	241.1	224.6	(23.6)	2.5	203.5
0.6	(71.0)	(65.9)	(1.5)	(4.3)	(71.7)
4.5	170.1	158.7	(25.1)	(1.8)	131.8
3.8	(21.7)	(12.9)	3.7	-	(9.2)
8.3	148.4	145.8	(21.4)	(1.8)	122.6
					(125.6)
					(3.0)

Year ended 31 March 2000 (£ million)	Year ended 31 March 2000 Per share	Year ended 31 March 1999 (£ million)	Year ended 31 March 1999 Per share
158.4	20.3p	122.6	15.7p
4.0	0.5p	—	—
(42.5)	(5.4)p	(3.7)	(0.5)p
34.6	4.4p	27.3	3.5p
(0.6)	(0.1)p	1.5	0.2p
(3.8)	(0.5)p	(3.7)	(0.4)p
150.1	19.2p	144.0	18.5p
n/a	—	n/a	—
150.1	19.2p	144.0	18.5p

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 March 1999

	Notes	Total (£ million)	Joint venture HMV Media (£ million)
Turnover:			
Continuing operations (including joint venture)		2,905.6	532.1
Less: joint venture turnover		(532.1)	(532.1)
		2,373.5	—
Discontinued operations		—	—
Group turnover	1	2,373.5	—
Cost of sales	2	(1,555.3)	—
Gross profit		818.2	—
Distribution costs	2	(123.1)	—
Administration expenses	2	(487.1)	—
Other operating income, net	2	34.4	—
Operating profit:			
Continuing operations		242.4	—
Discontinued operations		—	—
Group operating profit	1&3	242.4	—
Share of operating profit in joint venture		30.1	30.1
Share of operating profits (losses) in associates		(0.7)	—
Total operating profit		271.8	30.1
Non-operating exceptional items:			
Profits (losses) on business disposed of or terminated	9	3.7	—
Profit before finance charges		275.5	30.1
Finance charges:			
Group (including associates)		(44.4)	—
Joint venture		(27.6)	(27.6)
Total finance charges	6	(72.0)	(27.6)
Profit on ordinary activities before taxation		203.5	2.5
Taxation on profit on ordinary activities	7	(71.7)	(4.3)
Profit on ordinary activities after taxation		131.8	(1.8)
Minority interests (equity)		(9.2)	—
Profit attributable to members of the Holding Company		122.6	(1.8)
Dividends (preference)	8	—	
Dividends (equity)	8	(125.6)	
Transfer (from) to profit and loss reserve		(3.0)	

Note: Reconciliation of adjusted earnings

	Notes
Profit attributable to members of the Holding Company	
Dividends (preference)	
Earnings	
Earnings/basic EPS	10
Adjustments:	
Exceptional items	
Amortisation of goodwill and music copyrights	
Attributable taxation	
Minority interest (re: music copyright amortisation)	
Adjusted earnings/adjusted EPS	10
Adjusted dilution impact	
Adjusted earnings/adjusted diluted EPS	10

Year ended 31 March 1999 EMI Group (excluding HMV Media) Exceptional items and amortisation (£ million)	Year ended 31 March 1999 EMI Group (excluding HMV Media) Before exceptional items and amortisation (£ million)	Year ended 31 March 1998 (restated) EMI Group (excluding HMV Media) Before exceptional items and amortisation (£ million)	Year ended 31 March 1998 (restated) EMI Group (excluding HMV Media) Exceptional items and amortisation (£ million)	Year ended 31 March 1998 (restated) Joint venture HMV Media (£ million)	Year ended 31 March 1998 (restated) Total (£ million)
—	2,373.5	2,352.7	—	—	2,352.7
—	—	—	—	—	—
—	2,373.5	2,352.7	—	—	2,352.7
—	—	956.7	—	—	956.7
—	2,373.5	3,309.4	—	—	3,309.4
(26.9)	(1,528.4)	(2,334.3)	(27.0)	—	(2,361.3)
(26.9)	845.1	975.1	(27.0)	—	948.1
—	(123.1)	(118.9)	—	—	(118.9)
(0.4)	(486.7)	(531.3)	(135.9)	—	(667.2)
—	34.4	45.6	—	—	45.6
(27.3)	269.7	340.9	(162.9)	—	178.0
—	—	29.6	—	—	29.6
(27.3)	269.7	370.5	(162.9)	—	207.6
—	—	—	—	—	—
—	(0.7)	0.9	—	—	0.9
(27.3)	269.0	371.4	(162.9)	—	208.5
3.7	—	—	120.8	—	120.8
(23.6)	269.0	371.4	(42.1)	—	329.3
—	(44.4)	(64.3)	—	—	(64.3)
—	—	—	—	—	—
—	(44.4)	(64.3)	—	—	(64.3)
(23.6)	224.6	307.1	(42.1)	—	265.0
(1.5)	(65.9)	(97.3)	(29.2)	—	(126.5)
(25.1)	158.7	209.8	(71.3)	—	138.5
3.7	(12.9)	(9.9)	3.8	—	(6.1)
(21.4)	145.8	199.9	(67.5)	—	132.4
					(0.2)
					(125.8)
					6.4

Year ended 31 March 1999 (£ million)	Year ended 31 March 1999 Per share	Year ended 31 March 1998 (restated) (£ million)	Year ended 31 March 1998 (restated) Per share
122.6		132.4	
—		(0.2)	
122.6		132.2	
122.6	15.7p	132.2	16.5p
(3.7)	(0.5)p	15.1	1.9p
27.3	3.5p	27.0	3.4p
1.5	0.2p	29.2	3.7p
(3.7)	(0.4)p	(3.8)	(0.5)p
144.0	18.5p	199.7	25.0p
n/a	—	n/a	(0.1)p
144.0	18.5p	199.7	24.9p

BALANCE SHEETS

at 31 March

	Notes	2000 (£ million)	1999 (£ million)	1998 (restated) (£ million)
Fixed assets				
Music copyrights	11	521.0	373.6	372.2
Goodwill	12	26.7	11.6	—
Tangible fixed assets	13	337.2	348.7	356.1
Investments: associated undertakings	14	18.0	5.0	5.3
Other fixed asset investments	14	20.0	53.2	50.9
Investments: own shares	15	18.4	19.9	19.5
		941.3	812.0	804.0
Current assets				
Stocks	16	39.9	45.7	51.1
Debtors: amounts falling due within one year	17	829.2	732.6	807.9
Debtors: amounts falling due after more than one year	17	86.0	63.7	62.6
Investments: liquid funds	18	1.3	1.4	1.9
Cash at bank and in hand and cash deposits	18	266.6	170.1	219.6
		1,223.0	1,013.5	1,143.1
Creditors: amounts falling due within one year				
Borrowings	18	(808.2)	(848.3)	(1,049.2)
Other creditors	21	(1,202.0)	(1,250.1)	(1,205.9)
		(2,010.2)	(2,098.4)	(2,255.1)
Net current liabilities		(787.2)	(1,084.9)	(1,112.0)
Total assets less current liabilities		154.1	(272.9)	(308.0)
Creditors: amounts falling due after more than one year				
Borrowings	18	(380.9)	(48.4)	(125.8)
Other creditors	22	(37.6)	(24.1)	(36.7)
		(418.5)	(72.5)	(162.5)
Provisions for liabilities and charges				
Deferred taxation	23	(27.8)	(33.6)	(24.5)
Other provisions	24	(130.2)	(128.1)	(179.7)
Investments: joint venture (HMV Media)	14			
Share of gross assets		196.5	185.6	235.3
Share of gross liabilities		(365.5)	(353.1)	(426.9)
Loan to joint venture		—	—	200.0
		(169.0)	(167.5)	8.4
		(327.0)	(329.2)	(195.8)
		(591.4)	(674.6)	(666.3)
Capital and reserves				
Called-up share capital	25	110.4	110.2	110.1
Share premium account	25	444.6	441.2	439.0
Capital redemption reserve	26	495.8	495.8	495.8
Other reserves	26	256.0	256.0	257.5
Profit and loss reserve (inc. goodwill previously written off)	26	(2,034.4)	(2,097.2)	(2,081.2)
Equity shareholders' funds		(727.6)	(794.0)	(778.8)
Minority interests (equity)	27	136.2	119.4	112.5
		(591.4)	(674.6)	(666.3)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the years ended 31 March

	2000		1999		1998 (restated)	
	(£ million)	(£ million)	(£ million)	(£ million)	(£ million)	(£ million)
Profit for the financial year		158.4		122.6		132.4
Revaluation of property	—		(1.5)		—	
Minority interest adjustment	0.6		—		—	
Currency translation – Group*	29.8		(7.0)		(4.4)	
Currency translation – Group prior year adjustments	—		—		4.0	
Currency translation – joint venture	(1.1)		(0.8)		—	
Other recognised gains (losses)		29.3		(9.3)		(0.4)
Total recognised gains and losses relating to the year		187.7		113.3		132.0

* *Currency gains (losses) of £22.0 million (1999: £(2.2) million, 1998: £(8.2) million) which relate to foreign currency borrowings to finance investment overseas have been included within the currency translation movement on reserves.*

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the years ended 31 March

	2000 (£ million)	1999 (£ million)	1998 (restated) (£ million)
Opening shareholders' funds			
As reported	(794.0)	(652.6)	3.5
Prior period adjustments	n/a	(126.2)	(33.9)
Opening shareholders' funds (restated)	(794.0)	(778.8)	(30.4)
Profit for the financial year	158.4	122.6	132.4
Dividends (preference)	—	—	(0.2)
Dividends (equity)	(125.1)	(125.6)	(125.8)
Other recognised gains (losses)	29.3	(9.3)	(0.4)
Goodwill:			
On acquisitions	—	—	(317.3)
On disposals	—	—	41.2
Adjustments	0.2	(5.2)	—
Shares issued	3.6	2.3	5.7
Share capital reorganisation	—	—	(484.0)
Net increase (decrease) in shareholders' funds for the year	66.4	(15.2)	(748.4)
Closing shareholders' funds	(727.6)	(794.0)	(778.8)

CONSOLIDATED CASH FLOW STATEMENT

for the years ended 31 March

	Notes	2000 (£ million)	1999 (£ million)	1998 (restated) (£ million)
Net cash inflow from operating activities		246.5	330.3	297.7
Dividends received from associated undertakings	14	0.4	0.2	1.2
Returns on investments and servicing of finance				
Interest received		29.0	32.2	13.9
Interest paid		(76.1)	(79.1)	(72.2)
Interest element of finance lease payments		(0.3)	(0.3)	(0.3)
Dividends paid to minorities		(10.0)	(8.6)	(10.5)
Dividends paid to preference shareholders		—	—	(0.2)
Net cash outflow from returns on investments and servicing of finance		(57.4)	(55.8)	(69.3)
Tax paid		(100.5)	(98.5)	(78.0)
Capital expenditure and financial investment				
Purchase of music copyrights	11	(15.7)	(10.4)	—
Purchase of tangible fixed assets	13	(37.8)	(44.7)	(103.0)
Sale of tangible fixed assets		3.0	9.7	12.1
Purchase of investments: own shares	15	(0.2)	(1.6)	(16.2)
Purchase of other fixed asset investments	14	(1.7)	(2.1)	(9.9)
Sale of other fixed asset investments		81.0	0.9	—
Loan repaid by (made to) joint venture (HMV Media)	14	—	200.0	(200.0)
Net cash inflow (outflow) from capital expenditure and financial investment		28.6	151.8	(317.0)
Acquisitions and disposals				
Purchase of investment in joint venture	14	—	(9.0)	(87.5)
Purchase of associated undertakings	14	(9.6)	(0.9)	(0.4)
Loans (made to) repaid by associated undertakings	14	(4.2)	(0.7)	6.0
Disposal of associated undertakings		1.0	0.9	—
Purchase of businesses net of cash acquired	31	(149.1)	(14.9)	(179.3)
Deferred consideration paid		(4.6)	(5.4)	(6.0)
Disposal of businesses	32	(3.7)	—	434.2
Deferred consideration received		—	43.2	7.9
Net cash (outflow) inflow from acquisitions and disposals		(170.2)	13.2	174.9
Equity dividends paid		(158.1)	(92.5)	(129.0)
Net cash (outflow) inflow before management of liquid resources and financing		(210.7)	248.7	(119.5)
Issue of Ordinary Share capital		3.6	2.3	5.7
Share capital reorganisation		—	—	(484.0)
Management of liquid resources	20	(24.7)	16.3	(7.1)
Financing: New loans	20	834.0	628.4	717.9
Loans repaid	20	(516.3)	(867.8)	(106.9)
Capital element of finance leases repaid	20	(0.5)	(1.3)	(2.1)
Net cash inflow (outflow) from management of liquid resources and financing		296.1	(222.1)	123.5
Increase in cash	20	85.4	26.6	4.0

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Notes	2000 (£ million)	1999 (£ million)	1998 (restated) (£ million)
Group operating profit		252.0	242.4	207.6
Depreciation charge	13	57.8	56.3	94.9
Amortisation charge:				
Music copyrights	11	33.5	26.9	27.0
Goodwill	12	1.1	0.4	—
Fixed asset write (back) down	13	(3.5)	3.5	10.5
Amounts provided	24	19.2	9.8	69.5
Provisions utilised:				
Disposals and fundamental reorganisations	24	(1.5)	(6.2)	(9.1)
Other	24	(24.5)	(68.2)	(35.6)
(Increase) decrease in working capital:				
Stock		5.1	7.2	(14.1)
Debtors		(75.0)	54.4	(59.0)
Creditors		(17.7)	3.8	6.0
Net cash inflow from operating activities		246.5	330.3	297.7

ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

The results for the years ended 31 March 2000 and 31 March 1999 represent continuing operations. Following the disposal of HMV and Dillons ("HMV") to HMV Media on 28 March 1998 and in accordance with FRS 3, HMV's results for the year ended 31 March 1998 are included within discontinued operations. EMI Group's investment in HMV Media is accounted for as a joint venture in accordance with FRS 9.

The geographical segmental analysis in Note 1 has been revised to reflect more accurately the way the business is currently managed. The comparatives for the years ended 31 March 1999 and 31 March 1998 have been restated to reflect this.

Following the disposal of HMV and the appointment of Ken Berry and Martin Bandier to the Board, the segmental analysis was revised to treat Recorded Music and Music Publishing as separate segments. In the year ended 31 March 1998, they were previously combined and treated as one segment, EMI Music. In addition, the analysis of costs between cost of sales, distribution costs and administration expenses was revised in line with the way the ongoing businesses are managed. The comparatives for the year ended 31 March 1998 were restated to reflect this. Overheads relating to selling, marketing and promotion, artist and repertoire expenditure and certain of the distribution functions are now treated as administration expenses, whereas previously they were allocated to cost of sales and distribution costs.

Basis of Consolidation

The consolidated financial statements comprise the accounts of EMI and its subsidiaries. The results of all subsidiaries are taken from their accounts made up to 31 March. The results of subsidiaries, joint ventures and associated undertakings disposed of or acquired during the year are included up to, or from, the date that control passes.

Changes in Accounting Policies and Presentation of Financial Information

The Accounting Standards Board issued the following Financial Reporting Standard effective for EMI's year ended 31 March 2000: FRS15 — *Tangible Fixed Assets*. This standard was adopted by EMI Group with effect from 1 April 1999 and has had no material impact on the accounts as transitional arrangements have been adopted. Additionally, a new accounting policy for new media holdings, as detailed below, has been applied during the year.

The Accounting Standards Board issued the following Financial Reporting Standards effective for EMI's year ended 31 March 1999: FRS9 — *Associates and Joint Ventures*, FRS10 — *Goodwill and Intangible Assets*, FRS11 — *Impairment of Fixed Assets and Goodwill*, FRS12 — *Provisions, Contingent Assets and Contingent Liabilities*, FRS13 — *Derivatives and Other Financial Instruments: Disclosures* and FRS14 — *Earnings per Share*. These standards were adopted by the EMI Group with effect from 1 April 1998 and the comparatives for the year ended 31 March 1998 were restated where appropriate (see Note 34). Significant new accounting policies arising from adoption of these standards are detailed below.

Foreign Currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of profit for the financial year.

On consolidation, average exchange rates have been used to translate the results of overseas subsidiaries and associated undertakings. The assets and liabilities of overseas subsidiaries, joint ventures and associated undertakings are translated into sterling at year-end rates.

Exchange differences arising from the retranslation at year-end exchange rates of:

(i) the opening net investment in overseas subsidiaries and associated undertakings and foreign currency borrowings in so far as they are matched by those overseas investments; and

(ii) the results of overseas subsidiaries, joint ventures and associated undertakings,

are dealt with in reserves.

Turnover

Turnover represents the invoiced value or contracted amount of goods and services supplied by EMI and its subsidiaries. Turnover excludes value added tax and similar sales-related taxes.

Pension Costs

Pension costs, which are determined in accordance with Statement of Standard Accounting Practice 24 — *Accounting for Pension Costs* (SSAP 24), are charged to the profit and loss account so as to spread the cost of pensions over the working lives of the employees within the EMI Group. Valuation surpluses or deficits are amortised over the expected remaining working life within the EMI Group of the relevant employees (estimated to be eight years in respect of the UK). The amortisation of valuation surpluses is restricted to an amount equal to the regular pension cost. Accordingly, employer expense in respect of the main scheme, which covers employees in the UK, has been taken as nil for each of the three years ended 31 March 2000 for reasons of conservatism.

Joint Ventures and Associated Undertakings

Where the EMI Group has an investment in an entity which is sufficient to give the EMI Group a participating interest, and over which it is in a position to exercise significant influence, the entity is treated as an associated undertaking and is accounted for using the equity method.

Entities in which the EMI Group holds an interest on a long-term basis and which are jointly controlled by the EMI Group and one or more other parties under a contractual arrangement, are treated as joint ventures and are accounted for using the gross equity method.

The results of joint ventures and associated undertakings are taken from their accounts made up to 31 March or such earlier date (not prior to 31 December) which represents their financial period end, as adjusted for material items which have occurred in the intervening period.

Goodwill and other Intangibles

Goodwill and recorded catalogue intangibles arising on acquisitions made after 31 March 1998 are capitalised and amortised over their expected useful life, principally restricted to 20 years, in accordance with FRS10. They are reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill arising on acquisitions made before 31 March 1998, has been charged directly against shareholders' funds in the year of acquisition and is included within the profit and loss reserve, yet separately identified within the reserves note. This goodwill will remain in reserves until, on the disposal or closure of any business, the profit and loss account includes a charge in respect of the goodwill previously written off against shareholders' funds on the acquisition of the business.

Music Copyrights

Music copyrights purchased prior to 1 April 1989 were written off against shareholders' funds on acquisition. Copyrights acquired as a result of acquisitions on or after 1 April 1989 were previously capitalised as intangible assets in the EMI Group balance sheet, but amortised only to the extent that royalty revenue generated by the total music publishing copyrights portfolio was insufficient to support its book value.

On adoption of FRS10, the EMI Group's accounting policy for copyrights had to change because the detailed annual impairment review required by FRS10 to support an indefinite useful economic life could not be performed. Consequently, copyrights are now amortised by equal annual amounts over up to 20 years, other than in exceptional circumstances when sufficient ongoing impairment tests can be performed to support a useful economic life of over 20 years. Where a useful economic life of up to 20 years has been adopted, copyrights are reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

The comparatives for the year ended 31 March 1998 and opening balances have been restated, via a prior year adjustment, to reflect the accumulated amortisation at 31 March 1997 and the charge for the year ended 31 March 1998 arising from this change in accounting policy (see Note 34).

Advances to Artists

Advances to artists and repertoire owners are assessed and the value of the unrecouped portion to be included in debtors is determined by the prospects of future recoupment, based on past sales performance, current popularity and projected sales.

Leased Assets

Assets held under finance leases are included as tangible fixed assets at their estimated purchase cost and depreciated over their expected useful lives, or over the primary lease period, whichever is shorter. The obligations relating to finance leases (net of finance charges allocated to future periods) are included under borrowings due within or after one year, as appropriate. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the lease term.

Depreciation of Tangible Fixed Assets

Depreciation of tangible fixed assets is calculated on cost at rates estimated to write off the cost less the estimated residual value of the relevant assets by equal annual amounts over their expected useful lives; effect is given, where necessary, to commercial and technical obsolescence.

The annual rates used are:

Freehold buildings and long-term leasehold property	2 per cent.
Short-term leasehold property	Period of lease
Plant, equipment and vehicles	10 – 33⅓per cent.

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value, less progress payments on uncompleted contracts and provisions for expected losses. Cost includes manufacturing overheads where appropriate.

Provisions

FRS12 — *Provisions, Contingent Assets and Contingent Liabilities*, was adopted with effect from 1 April 1998. Due to the initial implementation arrangements for this standard, the comparatives for the year ended 31 March 1998 and opening balances have been restated to reflect the new guidelines regarding recognition of provisions (see Note 34).

Taxation

EMI has undertaken to discharge the liability to corporation tax of the majority of its wholly owned UK subsidiaries. Their UK tax liabilities are therefore dealt with in the accounts of EMI.

Deferred taxation is calculated using the liability method in respect of timing differences arising primarily from the difference between the accounting and tax treatments of depreciation. Provision is made, or recovery anticipated, where timing differences are expected to reverse without replacement in the foreseeable future.

Financial Instruments

Any premium or discount associated with the purchase of interest rate instruments is amortised over the life of the transaction. Interest receipts and payments are accrued to match the net income or cost with the related finance expense. No amounts are recognised in respect of future periods.

New Media Holdings

Holdings in new media companies, that arise as a consequence of licensing, distribution, and other similar deals with such companies, are carried at cost, which is typically minimal. Income from these holdings, net of costs, is only recognised when received as cash and is treated as other operating income. The costs relating to these investments are held within debtors until being recognised with the related income.

NOTES TO THE FINANCIAL STATEMENTS
for the years ended 31 March

1. Segmental Analyses

	2000		1999		1998 (restated)	
	Turnover (£ million)	Operating profit (£ million)	Turnover (£ million)	Operating profit (£ million)	Turnover (£ million)	Operating profit (£ million)
By class of business:						
Continuing operations:						
Recorded Music	2,032.5	195.1	2,057.0	182.2	2,115.1	251.5
Music Publishing	354.0	95.5	316.5	87.5	298.4	89.4
Gross	2,386.5	290.6	2,373.5	269.7	2,413.5	340.9
Elimination of sales to HMV	n/a	n/a	n/a	n/a	(60.8)	n/a
	2,386.5	290.6	2,373.5	269.7	2,352.7	340.9
Discontinued operations	n/a	n/a	n/a	n/a	956.7	29.6
Group*	2,386.5	290.6	2,373.5	269.7	3,309.4	370.5
Operating exceptional items and amortisation#		(38.6)		(27.3)		(162.9)
Group operating profit*		252.0		242.4		207.6
By origin:						
United Kingdom	304.2	48.5	297.0	42.9	346.5	57.7
Rest of Europe	724.8	98.5	727.2	95.3	803.3	146.0
North America	726.3	60.9	793.7	91.1	665.5	98.2
Asia	446.1	62.9	376.1	25.0	362.0	1.6
Other	185.1	19.8	179.5	15.4	236.2	37.4
Continuing operations	2,386.5	290.6	2,373.5	269.7	2,413.5	340.9
By destination:						
United Kingdom	314.4		306.4		344.6	
Rest of Europe	733.2		735.4		816.0	
North America	698.8		767.7		647.9	
Asia	449.0		379.8		365.5	
Other	191.1		184.2		239.5	
Continuing operations	2,386.5		2,373.5		2,413.5	

* *Group turnover and operating profit excludes amounts relating to the joint venture and associates.*

\# *Operating exceptional items £(4.0) million (1999: £nil, 1998: £(135.9) million) and amortisation of goodwill and music copyrights £(34.6) million (1999: £(27.3) million, 1998: £(27.0) million) are all within continuing operations. Continuing operations' operating profit after operating exceptional items and amortisation is £252.0 million (1999: £242.4 million, 1998: £178.0 million). The split of operating exceptional items and amortisation of goodwill and music copyrights is as follows:*

By class of business:	2000 (£ million)	1999 (£ million)	1998 (restated) (£ million)
Recorded Music	(1.6)	(0.7)	(136.1)
Music Publishing	(37.0)	(26.6)	(26.8)
Continuing operations	(38.6)	(27.3)	(162.9)

By origin:	2000 (£ million)	1999 (£ million)	1998 (restated) (£ million)
United Kingdom	(1.8)	(0.8)	(5.5)
Rest of Europe	(3.0)	(1.3)	(9.7)
North America	(31.8)	(25.2)	(147.7)
Asia	(1.9)	—	—
Other	(0.1)	—	—
Continuing operations	(38.6)	(27.3)	(162.9)

1. Segmental Analyses (continued)

	2000		1999		1998 (restated)	
	Operating assets (£ million)	Average employees (Number)	Operating assets (£ million)	Average employees (Number)	Operating assets (£ million)	Average employees (Number)
By class of business:						
Continuing operations:						
Recorded Music	215.7	9,620	125.4	9,712	159.3	9,864
Music Publishing	502.1	588	370.2	580	393.4	588
Other (HMV Media)	(169.0)	n/a	(167.5)	n/a	8.4	n/a
	548.8	10,208	328.1	10,292	561.1	10,452
Discontinued operations	n/a	n/a	n/a	n/a	—	7,417
Group	548.8	10,208	328.1	10,292	561.1	17,869
By origin:						
United Kingdom	(21.7)	1,524	(111.4)	1,524	37.2	1,596
Rest of Europe	(3.5)	3,010	(16.3)	3,168	(22.0)	3,261
North America	451.9	3,105	311.7	3,043	407.8	2,837
Asia	113.0	1,593	143.0	1,684	116.5	1,893
Other	9.1	976	1.1	873	21.6	865
Continuing operations	548.8	10,208	328.1	10,292	561.1	10,452

The reconciliation of operating assets to net liabilities is as follows:

	Note	2000 (£ million)	1999 (£ million)	1998 (restated) (£ million)
Operating assets		548.8	328.1	561.1
Tax, dividends and net interest payable		(219.0)	(277.5)	(273.9)
Capital employed		329.8	50.6	287.2
Net borrowings	18	(921.2)	(725.2)	(953.5)
Net liabilities		(591.4)	(674.6)	(666.3)

2. Analysis of Profit and Loss Account

	2000 Total and Continuing (£ million)	1999 Total and Continuing (£ million)	Continuing (£ million)	Discontinued (£ million)	1998 (restated) Total (£ million)
Cost of sales	1,549.8	1,555.3	1,485.9	875.4	2,361.3
Cost of sales is analysed as:					
– normal	1,516.3	1,528.4	1,458.9	875.4	2,334.3
– exceptional items and music copyright amortisation	33.5	26.9	27.0	—	27.0
Net operating expenses:					
Distribution costs	124.7	123.1	118.9	—	118.9
Administration expenses	532.0	487.1	615.4	51.8	667.2
Other operating income, net	(72.0)	(34.4)	(45.5)	(0.1)	(45.6)
	584.7	575.8	688.8	51.7	740.5
Net operating expenses are analysed as:					
– normal	579.6	575.4	552.9	51.7	604.6
– exceptional items and goodwill amortisation	5.1	0.4	135.9	—	135.9

Other operating income principally comprises the EMI Group's share of income from joint marketing arrangements, income from entering into manufacturing and distribution agreements, net patent income and income from new media investments, including musicmaker.com, Inc. £24.7 million (1999: £nil, 1998: £nil).

3. Operating Profit

	2000 (£ million)	1999 (£ million)	1998 (restated) (£ million)
Operating profit is stated after charging:			
Amortisation of music copyrights	33.5	26.9	27.0
Amortisation of goodwill	1.1	0.4	—
Depreciation of tangible fixed assets	57.8	56.3	94.9
Operating lease rentals:			
Property	15.5	18.4	82.8
Plant, equipment and vehicles	5.9	7.7	8.0
Research and development expenditure	0.1	0.2	0.1
Year 2000 costs	0.1	2.7	5.2

4. Fees to Auditors

	2000 (£ million)	1999 (£ million)	1998 (restated) (£ million)
Audit fees paid to Ernst & Young	2.2	2.0	2.2
Audit fees paid to other firms	0.2	0.2	—
Other fees paid to Ernst & Young:			
UK	0.3	0.3	0.7
Non-UK	1.5	1.3	1.5
	4.2	3.8	4.4

Other fees include £0.9 million (1999: £1.0 million, £1998: £1.1 million) paid to Ernst & Young for tax consultancy and £0.1 million (1999: £0.3 million, 1998 £0.5 million) for accountancy advice.

5. Directors' and Employees' Costs

	2000 (£ million)	1999 (£ million)	1998 (£ million)
Directors' and employees' costs:			
Wages and salaries	359.9	335.2	448.5
Social security costs	50.4	47.8	51.5
Other pension costs (see Note 30)	14.0	11.6	15.8
	424.3	394.6	515.8

Details of each Director's remuneration, compensation for loss of office, pension entitlements, long-term incentive scheme interests and share options, are included in an extract from the Remuneration Report on pages 122 to 132.

6. Finance Charges

	2000 (£ million)	1999 (£ million)	1998 (£ million)
Interest payable on:			
Bank overdrafts and loans	53.0	63.2	75.2
Other	6.3	6.9	7.7
	59.3	70.1	82.9
Interest receivable on:			
Bank balances	(6.3)	(16.1)	(11.8)
Other	(2.7)	(9.6)	(6.8)
	(9.0)	(25.7)	(18.6)
Group finance charges (including associates)	50.3	44.4	64.3
Joint venture finance charges (HMV Media)	23.4	27.6	—
Total finance charges	73.7	72.0	64.3

The EMI Group holds various financial instruments in order to manage interest rate risk. Details of those financial instruments held at the year end are given in Note 19.

Finance charges for associates are £nil (1999: £nil, 1998: £nil).

7. Taxation

	2000 Before exceptional items (£ million)	2000 Exceptional items (£ million)	2000 Total (£ million)	1999 Total (£ million)	1998 (restated) Total (£ million)
Taxation on profit on ordinary activities:					
United Kingdom:					
Corporation tax	13.6	—	13.6	14.6	51.9
Advance corporation tax written back	(8.0)	—	(8.0)	(6.5)	(0.1)
Double taxation relief	(5.9)	—	(5.9)	(6.0)	(7.0)
	(0.3)	—	(0.3)	2.1	44.8
Overseas taxation – current year charge	66.9	(0.6)	66.3	61.8	74.4
Overseas taxation – prior year adjustment	4.1	—	4.1	(3.7)	(7.1)
Deferred taxation:					
United Kingdom – current year charge	—	—	—	—	(0.1)
United Kingdom – prior year adjustment	—	—	—	—	(0.1)
Overseas – current year charge	(4.7)	—	(4.7)	(0.6)	1.4
Overseas – prior year adjustment	0.1	—	0.1	(1.1)	0.4
Associated undertakings' taxation:					
Overseas	0.1	—	0.1	—	0.2
Withholding taxes	4.8	—	4.8	8.9	12.6
Group	71.0	(0.6)	70.4	67.4	126.5
Joint venture taxation (HMV Media)	2.6	—	2.6	4.3	—
Total	73.6	(0.6)	73.0	71.7	126.5

The charge for taxation has been reduced by utilisation of tax losses of £0.1 million (1999: £0.1 million, 1998: £0.4 million). There is no unprovided deferred taxation arising in the year.

8. Dividends

(i) Preference

The preference dividend reflected in the year ended 31 March 1998 was 1.2073p per B Share, in respect of the period from 22 July 1997 to 29 September 1997 and was paid on 29 September 1997 to shareholders on the register at the close of business on 17 September 1997.

On 29 September 1997, all the outstanding B Shares were converted to Ordinary Shares. The total preference dividend was £0.2 million.

(ii) Equity

	2000 Per share	1999 Per share	1998 Per share	2000 (£ million)	1999 (£ million)	1998 (£ million)
Ordinary dividends (net):						
Interim	4.25p	4.25p	4.25p	33.5	33.5	33.4
Adjustment to 2000, 1999 and 1998 interim	—	—	—	(0.3)	(0.3)	(0.1)
Proposed final	11.75p	11.75p	11.75p	92.7	92.5	92.6
Adjustment to 1999, 1998 and 1997 final	—	—	—	(0.8)	(0.1)	(0.1)
	16.00p	16.00p	16.00p	125.1	125.6	125.8

The final dividend of 11.75p per share will be paid on 2 October 2000 to shareholders on the register at the close of business on 4 September 2000. The 1998 interim and final dividends were paid as Foreign Income Dividends (FIDs). The 1999 interim and final dividends were not paid as FIDs. The 2000 interim dividend, paid on 3 March 2000 was not a FID and the 2000 final dividend will not be a FID.

9. Exceptional Items

(i) Operating exceptional items

	2000 (£ million)	1999 (£ million)	1998 (restated) (£ million)
EMI Music – restructuring costs	—	—	(132.5)
Costs of integration and other	(4.0)	—	(3.4)
Total operating exceptional items	(4.0)	—	(135.9)

The attributable taxation credit relating to operating exceptional items is £0.6 million (1999: £nil, 1998: £3.7 million).

(ii) Non-operating exceptional items

	2000 (£ million)	1999 (£ million)	1998 (restated) (£ million)
Profits (losses) on businesses disposed of or terminated*:			
HMV	—	3.7	133.6
Other	(9.9)	—	(12.8)
	(9.9)	3.7	120.8
Profit on disposal of fixed asset investment – GWR Group PLC	52.4	—	—
Total non-operating exceptional items	42.5	3.7	120.8

* *Profits (losses) on businesses disposed of or terminated include £nil (1999: £nil, 1998: £41.2 million) of goodwill written back in the year.*

The attributable taxation charge relating to non-operating exceptional items is £nil (1999: £1.5 million, 1998: £32.9 million).

10. Earnings per Ordinary Share

	2000	1999	1998 (restated)
Basic earnings per Ordinary Share is calculated as follows:			
Earnings	£158.4m	£122.6m	£132.2m
Weighted average number of Ordinary Shares in issue	780.9m	778.9m	800.1m
Earnings per Ordinary Share	20.3p	15.7p	16.5p
Diluted earnings per Ordinary Share is calculated as follows:			
Earnings	£158.4m	£122.6m	£132.2m
Adjusted weighted average number of Ordinary Shares	781.8m	779.4m	801.4m
Earnings per Ordinary Share	20.3p	15.7p	16.5p
Adjusted basic earnings per Ordinary Share is calculated as follows:			
Adjusted earnings	£150.1m	£144.0m	£199.7m
Weighted average number of Ordinary Shares in issue	780.9m	778.9m	800.1m
Adjusted earnings per Ordinary Share	19.2p	18.5p	25.0p
Adjusted diluted earnings per Ordinary Share is calculated as follows:			
Adjusted earnings	£150.1m	£144.0m	£199.7m
Adjusted weighted average number of Ordinary Shares	781.8m	779.4m	801.4m
Adjusted earnings per Ordinary Share	19.2p	18.5p	24.9p

Adjusted earnings per Ordinary Share calculations are based on earnings before the impact of both operating and non-operating exceptional items and amortisation of goodwill and music copyrights. They are included as they provide a better understanding of the underlying trading performance of the EMI Group on a normalised basis.

The adjusted weighted average number of Ordinary Shares used in the diluted earnings per share calculations, 781.8 million (1999: 779.4 million, 1998: 801.4 million), is the weighted average number of Ordinary Shares in issue, 780.9 million (1999: 778.9 million, 1998: 800.1 million), plus adjustments for dilutive share options, 0.9 million (1999: 0.5 million, 1998: 1.3 million).

Comparatives for the year ended 31 March 1998 have been restated for the effect of prior period adjustments made as a result of adopting FRS10 and FRS12 from 1 April 1998 and as a result of adopting FRS14.

11. Music Copyrights

	(£ million)
Cost at 31 March 1998	529.1
Currency retranslation	18.5
Acquisition of businesses	5.4
Additions	10.4
Cost at 31 March 1999	563.4
Currency retranslation	2.1
Acquisition of businesses	165.1
Additions	15.7
Cost at 31 March 2000	746.3
Amortisation at 31 March 1998 (restated)	156.9
Currency retranslation	6.0
Charge for year	26.9
Amortisation at 31 March 1999	189.8
Currency retranslation	2.0
Charge for year	33.5
Amortisation at 31 March 2000	225.3
Net book values at 31 March 2000	521.0
31 March 1999	373.6
31 March 1998 (restated)	372.2

12. Goodwill (Capitalised)

	(£ million)
Cost at 31 March 1998	—
Currency retranslation	0.3
Acquisition of businesses	11.7
Cost at 31 March 1999	12.0
Currency retranslation	0.3
Acquisition of businesses	15.9
Cost at 31 March 2000	28.2
Amortisation at 31 March 1998	—
Currency retranslation	—
Charge for year	0.4
Amortisation at 31 March 1999	0.4
Currency retranslation	—
Charge for year	1.1
Amortisation at 31 March 2000	1.5
Net book values at 31 March 2000	26.7
31 March 1999	11.6
31 March 1998	—

13. Tangible Fixed Assets

	Freehold property (£ million)	Leasehold property (£ million)	Plant, equipment and vehicles (£ million)	Total (£ million)
Cost at 31 March 1998	227.2	30.0	341.7	598.9
Currency retranslation	18.8	1.2	20.3	40.3
Acquisition of businesses	—	—	(0.1)	(0.1)
Revaluation	(2.8)	—	—	(2.8)
Additions	4.3	3.1	37.3	44.7
Disposals	(9.0)	(0.7)	(57.8)	(67.5)
Cost at 31 March 1999	238.5	33.6	341.4	613.5
Currency retranslation	14.8	(0.5)	0.9	15.2
Acquisition of businesses	—	—	0.2	0.2
Disposal of businesses	(1.2)	—	(14.7)	(15.9)
Reclassification	(1.9)	(2.3)	4.0	(0.2)
Additions	2.1	2.8	32.9	37.8
Disposals	(2.0)	(0.4)	(26.2)	(28.6)
Cost at 31 March 2000	250.3	33.2	338.5	622.0
Depreciation at 31 March 1998	32.5	12.4	197.9	242.8
Currency retranslation	4.8	0.6	14.6	20.0
Charge for year	5.5	2.4	48.4	56.3
Asset write down	3.5	—	—	3.5
Reclassification	2.6	—	(2.6)	—
Disposals	(3.5)	(0.5)	(53.8)	(57.8)
Depreciation at 31 March 1999	45.4	14.9	204.5	264.8
Currency retranslation	2.5	(0.1)	1.4	3.8
Disposal of businesses	(0.5)	—	(11.8)	(12.3)
Charge for year	4.8	3.0	50.0	57.8
Asset write back	(3.5)	—	—	(3.5)
Reclassification	(0.4)	0.6	(0.4)	(0.2)
Disposals	(0.5)	(0.4)	(24.7)	(25.6)
Depreciation at 31 March 2000	47.8	18.0	219.0	284.8
Net book values at 31 March 2000	202.5	15.2	119.5	337.2
31 March 1999	193.1	18.7	136.9	348.7
31 March 1998	194.7	17.6	143.8	356.1

Freehold property includes land having a cost of £95.6 million (1999: £83.4 million, 1998: £69.1 million) which is not depreciated.

	2000 (£ million)	1999 (£ million)	1998 (£ million)
The net book values shown above include the following:			
Long-term leasehold property	6.6	9.9	9.0
Short-term leasehold property	8.6	8.8	8.6
Finance lease assets	5.0	6.3	7.8
Assets in the course of construction	7.7	9.8	25.8

14. Fixed Asset Investments

	2000 (£ million)	1999 (£ million)	1998 (restated) (£ million)
Investments comprise:			
Associated undertakings	18.0	5.0	5.3
Other investments	20.0	53.2	50.9
	38.0	58.2	56.2
Joint venture (HMV Media)	(169.0)	(167.5)	8.4
	(131.0)	(109.3)	64.6
Listed investments	—	28.3	28.3
Unlisted investments	(131.0)	(137.6)	36.3
	(131.0)	(109.3)	64.6

The market value of listed investments at 31 March 2000 was £nil (1999: £54.3 million, 1998: £26.4 million).

(i) Joint venture (HMV Media)

	Net equity investment (£ million)	Goodwill written off (£ million)	Share of net assets (£ million)	Loans (£ million)	Provisions (£ million)	Net book value (£ million)
At 31 March 1998	87.5	(278.1)	(190.6)	200.0	(1.0)	8.4
Additions	9.0	17.7	26.7	—	—	26.7
Net loss after tax	(1.8)	—	(1.8)	—	—	(1.8)
Exchange taken to reserves	(0.8)	—	(0.8)	—	—	(0.8)
Loans repaid	—	—	—	(200.0)	—	(200.0)
At 31 March 1999	93.9	(260.4)	(166.5)	—	(1.0)	(167.5)
Goodwill adjustments	—	(2.1)	(2.1)	—	—	(2.1)
Net profit after tax	1.7	—	1.7	—	—	1.7
Exchange taken to reserves	(1.1)	—	(1.1)	—	—	(1.1)
At 31 March 2000	94.5	(262.5)	(168.0)	—	(1.0)	(169.0)

The provision of £1.0 million represents the elimination of the EMI Group's share of unrealised profits in HMV Media's stocks.

Share of net liabilities – joint venture (HMV Media)

	2000 (£ million)	1999 (£ million)
Fixed assets	72.7	65.3
Current assets	123.8	120.3
Total assets	196.5	185.6
Short-term liabilities	(162.8)	(139.1)
Long-term liabilities	(202.7)	(214.0)
Total liabilities	(365.5)	(353.1)
Share of net liabilities	(169.0)	(167.5)

14. Fixed Asset Investments (continued)

(ii) Associated undertakings

	Net equity investment (£ million)	Goodwill written off (£ million)	Share of net assets (£ million)	Capitalised goodwill (£ million)	Loans (£ million)	Net book value (£ million)
At 31 March 1998 (restated)	48.1	(43.4)	4.7	—	0.6	5.3
Currency retranslation	(0.1)	—	(0.1)	—	—	(0.1)
Additions* and new loans	0.9	—	0.9	—	0.7	1.6
Net losses after tax	(0.7)	—	(0.7)	—	—	(0.7)
Dividends	(0.2)	—	(0.2)	—	—	(0.2)
Disposals and reclassifications	(0.9)	—	(0.9)	—	—	(0.9)
At 31 March 1999	47.1	(43.4)	3.7	—	1.3	5.0
Currency retranslation	(0.5)	—	(0.5)	0.1	0.3	(0.1)
Additions* and new loans	—	—	—	9.6	4.2	13.8
Net profits after tax	0.7	—	0.7	—	—	0.7
Dividends	(0.4)	—	(0.4)	—	—	(0.4)
Disposals and reclassifications	(0.7)	—	(0.7)	—	(0.3)	(1.0)
At 31 March 2000	46.2	(43.4)	2.8	9.7	5.5	18.0

* *Total consideration on purchase of associated undertakings comprises costs and loans totalling £9.6 million (1999: £0.9 million, 1998: £0.4 million).*

(iii) Other fixed asset investments

	Cost of shares (£ million)	Provisions (£ million)	Net book value (£ million)
At 31 March 1998	57.5	(6.6)	50.9
Currency retranslation	1.3	(0.2)	1.1
Additions	2.1	—	2.1
Disposals and reclassifications	(0.6)	(0.3)	(0.9)
At 31 March 1999	60.3	(7.1)	53.2
Currency retranslation	(0.1)	—	(0.1)
Additions	1.7	—	1.7
Disposals and reclassifications	(35.4)	0.6	(34.8)
At 31 March 2000	26.5	(6.5)	20.0

15. Investments: Own Shares

The EMI Group General Employee Benefit Trust (EBT) was established in order to hedge the future obligations of the EMI Group in respect of shares awarded under the Senior Executive Incentive Plan, the EMI Music Long-Term Incentive Plan and other share-based plans. The Trustee of the EBT, EMI Group Trustees (Guernsey) Limited, purchases EMI Ordinary Shares in the open market with financing provided by EMI, as required, on the basis of regular reviews of the anticipated share liabilities of the EMI Group.

The EBT has, since December 1998, waived any entitlement to the receipt of dividends in respect of all of its holding of EMI Ordinary Shares. The EBT's waiver of dividends may be revoked or varied at any time.

The cost of the shares expected to be awarded under each plan is amortised evenly over the period from the original grant of the particular award to the time of vesting. This is normally a period of not less than three years.

	Shares held in trust Number	Nominal value (£ million)	Cost (£ million)	Amortisation (£ million)	Net book value (£ million)
At 31 March 1998	9,618,855	1.3	44.9	(25.4)	19.5
Shares purchased	308,797	—	1.6	—	1.6
Awarded by the EBT	(2,036,179)	(0.2)	(10.3)	10.3	—
Amortisation in the period	—	—	—	(1.2)	(1.2)
At 31 March 1999	7,891,473	1.1	36.2	(16.3)	19.9
Shares purchased	24,510	—	0.2	—	0.2
Awarded by the EBT	(1,444,627)	(0.2)	(6.7)	6.7	—
Amortisation in the period	—	—	—	(1.7)	(1.7)
At 31 March 2000	6,471,356	0.9	29.7	(11.3)	18.4

At 31 March 2000, the outstanding loan by EMI to the EBT to finance the purchase of Ordinary Shares was £31.2 million (1999: £37.6 million, 1998: £52.7 million). The market value at 31 March 2000 of the Ordinary Shares held in the EBT, which are listed in the UK, was £44.1 million (1999: £34.9 million, 1998: £47.8 million).

16. Stocks

	2000 (£ million)	1999 (£ million)	1998 (£ million)
Raw materials and consumables	8.2	8.3	8.6
Work in progress	1.9	1.8	1.0
Finished goods	29.8	35.6	41.5
	39.9	45.7	51.1

17. Debtors

	2000 (£ million)	1999 (£ million)	1998 (£ million)
Due within one year:			
Trade debtors	340.4	372.7	375.0
Amounts owed by associated undertakings	0.9	0.5	0.4
Amounts owed by joint venture	7.9	7.2	—
Corporate taxation recoverable	40.4	13.1	13.4
Deferred consideration receivable	—	—	47.2
Other debtors	96.1	66.1	96.8
Prepayments and accrued income	343.5	273.0	275.1
	829.2	732.6	807.9
Due after more than one year:			
Prepaid pension contributions	—	—	8.9
Corporate taxation recoverable	23.0	17.6	14.7
Other debtors	12.0	8.3	1.2
Prepayments and accrued income	51.0	37.8	37.8
	86.0	63.7	62.6
	915.2	796.3	870.5

Other debtors due within one year includes £3.9 million (1999: £nil, 1998: £nil) book value of listed investments with a market value of £79.6 million (1999: £nil, 1998: £nil).

18. Borrowings

	2000 (£ million)	1999 (£ million)	1998 (£ million)
Long-term borrowings			
Loans	377.9	43.8	122.1
Finance leases	3.6	4.6	4.3
Less: repayable within one year	(0.6)	—	(0.6)
Total long-term borrowings	380.9	48.4	125.8
Short-term borrowings			
Loans and overdrafts	806.4	847.2	1,047.1
Finance leases	1.2	1.1	1.5
Short-term element of long-term loans	0.6	—	0.6
Total short-term borrowings	808.2	848.3	1,049.2
Total borrowings	1,189.1	896.7	1,175.0
Liquid funds:			
Investments: liquid funds	(1.3)	(1.4)	(1.9)
Cash at bank and in hand and cash deposits	(266.6)	(170.1)	(219.6)
Net borrowings	921.2	725.2	953.5

Long-term borrowings include £62.6 million (1999: £41.0 million, 1998 £101.5 million) of borrowings repayable within one year, which are drawings under long-term committed facilities and, therefore, have been classified as such.

Under their banking arrangements, overdraft and cash balances of the Company and of certain subsidiaries are pooled or offset and cross-guaranteed. Such pooling and offsets are reflected in the EMI Group balance sheet as appropriate.

EMI Group borrowings include £4.8 million (1999: £5.7 million, 1998: £5.8 million) which is secured on assets held under finance leases.

Maturity analysis of long-term borrowings

	2000 (£ million)	1999 (£ million)	1998 (£ million)
Amounts falling due after more than one year are repayable as follows:			
Between one and two years	51.6	1.6	82.7
Between two and five years	17.6	45.4	41.2
After five years:			
By instalments	0.7	1.4	1.9
Other	311.0	—	—
	380.9	48.4	125.8

The amount of debt, any of which falls due for payment after more than five years, is £314.2 million (1999: £3.9 million, 1998: £5.8 million).

19. Derivatives and other Financial Instruments

EMI Group has excluded all short-term debtors and creditors from the following disclosures other than currency exposures.

(i) Interest rate risk profile of the financial liabilities of EMI Group

	At 31 March 2000				At 31 March 1999			
Currency	Total* (£ million)	Floating rate financial liabilities (£ million)	Fixed rate financial liabilities (£ million)	Financial liabilities on which no interest is paid (£ million)	Total* (£ million)	Floating rate financial liabilities (£ million)	Fixed rate financial liabilities (£ million)	Financial liabilities on which no interest is paid (£ million)
Sterling#	12.2	3.1	—	9.1	(40.7)	(40.7)	—	—
US dollar	521.4	470.0	—	51.4	316.7	273.3	—	43.4
Yen	171.1	63.8	107.3	—	22.5	22.5	—	—
Euro	362.0	308.1	53.9	—	447.3	447.3	—	—
Swedish krona	90.8	90.8	—	—	92.4	92.4	—	—
Danish krone	51.5	51.5	—	—	64.9	64.9	—	—
Other	40.6	40.6	—	—	37.0	37.0	—	—
Total	1,249.6	1,027.9	161.2	60.5	940.1	896.7	—	43.4

* *Excludes short-term creditors as permitted by FRS13.*

\# *Sterling is a net cash position at 31 March 1999 after the effect of currency swaps of £61.3 million.*

	At 31 March 2000			At 31 March 1999		
	Fixed rate financial liabilities		Financial liabilities on which no interest is paid	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Currency	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Sterling	—	—	3.4	—	—	—
US dollar	—	—	4.0	—	—	4.5
Yen	0.7	2.5	—	—	—	—
Euro	4.1	1.5	—	—	—	—

Floating rate financial liabilities comprise bank borrowings and the proceeds of the US$500 million issue of 10-year Guaranteed Notes swapped to floating rate funding. Due to the strong performance of EMI's recorded music business in Japan and restrictions under the terms of the operating agreement with Toshiba (the minority partner), the EMI Group has financial assets (excluding short-term debtors) which include £84.5 million of bank deposits in Yen. The EMI Group also has £54.5 million of bank deposits in the UK arising from short-term timing differences spanning the year-end, associated with operating cash requirements. The EMI Group has no other individually material financial assets. All floating rate financial liabilities and assets bear or earn interest at rates fixed in advance by reference to the applicable bank reference rate in the relevant country for periods ranging from overnight to six months.

The figures shown in the above tables above take into account various interest rate and currency swaps used to manage interest rate risk and the currency profile of financial liabilities. Further protection from interest rate movements is provided by interest rate caps and collars. See Note 19 (vii) for further details of interest rate caps, collars and swaps.

19. Derivatives and other Financial Instruments (continued)

(ii) Currency exposures

The main purpose of the financial instruments the EMI Group holds is to raise finance for its operations. The EMI Group borrows in a variety of currencies. Due to the international nature of its operations, the EMI Group faces currency exposure in respect of exchange rate fluctuation against sterling. The EMI Group has continued its policy of not hedging the balance sheet translation exposures, except to the extent that overseas liabilities, including borrowings, provide a natural hedge.

It is also the EMI Group's policy not to hedge profit and loss account translation exposure. Transaction exposures are hedged where deemed appropriate and where they can be reliably forecast with the use of forward exchange rate contracts.

The EMI Group's objectives in managing currency exposures arising from its net investments overseas (its structural currency exposures) are to maintain appropriate levels of borrowings by currency to hedge partially against currency depreciation. Gains and losses arising from these structural currency exposures are recognised in the statement of total recognised gains and losses.

The table below shows the EMI Group's currency exposures, being those trading assets and liabilities (or non-structural exposures) that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the EMI Group that are not denominated in the operating (or 'functional') currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations. These exposures were as follows:

	At 31 March 2000 Net foreign currency monetary assets (liabilities)				
Functional currency of Group operation	Sterling (£ million)	US dollar (£ million)	Yen (£ million)	Euro (£ million)	Other (£ million)
Sterling	n/a	12.9	5.0	14.1	64.7
US dollar	(2.6)	n/a	—	0.1	0.7
Yen	(0.4)	0.2	n/a	—	0.4
Euro	5.3	(0.4)	—	n/a	1.1
Other	(3.9)	3.4	0.2	(0.6)	(0.2)
Total	(1.6)	16.1	5.2	13.6	66.7

	At 31 March 1999 Net foreign currency monetary assets (liabilities)				
Functional currency of Group operation	Sterling (£ million)	US dollar (£ million)	Yen (£ million)	Euro (£ million)	Other (£ million)
Sterling	n/a	13.0	1.8	(1.1)	7.5
US dollar	(5.5)	n/a	—	0.1	(0.1)
Yen	(0.2)	(0.1)	n/a	—	0.1
Euro	4.2	(1.9)	—	n/a	1.6
Other	(2.6)	(6.7)	0.5	0.1	0.8
Total	(4.1)	4.3	2.3	(0.9)	9.9

19. Derivatives and other Financial Instruments (continued)

(iii) Maturity of financial liabilities

The maturity profile of the EMI Group's financial liabilities, other than short-term creditors such as trade creditors and accruals, was as follows:

	2000 (£ million)	1999 (£ million)
In one year or less, or on demand	808.2	848.3
In more than one year but not more than two years	66.0	8.6
In more than two years but not more than five years	51.1	72.0
In more than five years	324.3	11.2
	1,249.6	940.1

(iv) Undrawn facilities

The EMI Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 March in respect of which all conditions precedent had been met at that date were as follows:

	2000 (£ million)	1999 (£ million)
Expiring in one year or less	423.3	505.1
Expiring in more than one year but not more than two years	11.1	18.5
Expiring in more than two years	166.5	69.1
	600.9	592.7

(v) Fair values of financial assets and financial liabilities

	2000		1999	
	Book Value (£ million)	Fair Value* (£ million)	Book Value (£ million)	Fair Value* (£ million)
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings and current portion of long-term borrowings	808.2	808.2	848.3	847.9
Long-term borrowings	380.9	391.7	48.4	48.4
Liquid funds	(267.9)	(267.9)	(171.5)	(171.5)
Other financial liabilities	60.5	60.5	43.4	43.4
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps	n/a	(11.6)	n/a	0.4
Interest rate caps and collars	0.2	0.8	0.5	(0.1)
Currency swaps and forward foreign currency contracts	n/a	(0.2)	n/a	(0.5)
Financial assets:				
Financial assets – listed investments	3.9	79.6	n/a	n/a
Financial assets – other	55.5	55.5	n/a	n/a

**Market rates have been used to determine fair values.*

At 31 March 2000 long-term borrowings included a US$500 million Guaranteed Notes issue (book value £311.0 million) with a fair value of £321.8 million. At 31 March 1999 short-term borrowings included a US dollar private placement (book value £18.5 million) with a fair value of £18.1 million. The majority of other borrowings and liquid funds are short-term in nature and book values approximate to fair values. The market value of listed investments is given above. For all other financial assets and liabilities, book values approximate to fair values. During the year a profit of £41.7 million was made on the sale of current asset investments (1999: £nil).

19. Derivatives and other Financial Instruments (continued)

(vi) Hedges

The EMI Group borrows in a variety of currencies at both fixed and floating rates and then uses interest rate swaps, caps and collars to manage its exposure to interest rate fluctuations. Treasury policy is to keep between 25 per cent. and 75 per cent. of its borrowings at fixed or capped rates. At the year end, 54.4 per cent. (1999: 35 per cent.) of the EMI Group's borrowings were fixed or capped after taking account of interest rate swaps, caps and collars.

As explained in Note 19(ii), it is the EMI Group's policy not to hedge balance sheet or profit and loss translation exposures. Transaction exposures are hedged where deemed appropriate and where they can be reliably forecast with the use of forward exchange rate contracts. Unrecognised gains and losses on instruments used for hedging, and the movements therein are immaterial.

(vii) Financial instruments

Interest rate agreements

To manage interest rate risk, the EMI Group has entered into certain interest rate cap, collar and swap agreements, which as at 31 March 2000 were as follows:

	Notional principal	Termination date	Capped rate %
Interest rate caps:			
US dollar	$250 million	Feb 2001	6.5%

	Notional principal	Termination date	Rate %
Interest rate collars:			
US dollar	$150 million	Oct 2001	Cap rate 7.0% Floor rate 6.0%
Euro	€150 million	Mar 2002	Cap rate 4.0% Floor rate 2.9%

	Notional principal	Termination date	Fixed Rate %
Interest rate swaps:			
Euro – pay fixed rate and receive floating rate	€90 million	Oct 2001	4.11%
Yen – pay fixed rate and receive floating rate	¥17.5 billion	Oct 2002	0.65%
US dollar – pay floating rate and receive fixed rate	$500 million	Aug 2009	8.38%

Exchange rate agreements

To manage exchange rate risk on intra-group funding, the EMI Group has entered into certain currency swaps and forward foreign currency contracts, which as at 31 March 2000 were as follows:

	Gross notional amount purchased (£ million)	Value date
Canadian dollar	13.4	Apr 2000
US dollar	0.1	Apr 2000

20. Cash, Liquid Resources and Financing

The following definitions have been used:

Cash: Cash in hand and deposits repayable on demand if available within 24 hours without penalty and including overdrafts.

Liquid Resources: Investments and deposits, other than those included as cash, which are readily convertible into known amounts of cash.

Financing: Borrowings less overdrafts which have been treated as cash.

Analysis of movement in the EMI Group's net borrowings in the year ended 31 March 2000

	At 1 April 1999 (£ million)	Cash flow (£ million)	Acquisitions/ disposals (£ million)	Exchange movement (£ million)	At 31 March 2000 (£ million)
Cash at bank and in hand	149.6	72.2	—	(0.1)	221.7
Overdrafts	(69.2)	13.2	—	0.7	(55.3)
Cash	80.4	85.4	—	0.6	166.4
Debt due after more than one year	(43.8)	(334.8)	—	1.3	(377.3)
Debt due within one year	(778.0)	17.1	(7.7)	16.9	(751.7)
Finance leases	(5.7)	0.5	—	0.4	(4.8)
Financing	(827.5)	(317.2)	(7.7)	18.6	(1,133.8)
Investments: liquid funds	1.4	(0.1)	—	—	1.3
Cash deposits	20.5	24.8	—	(0.4)	44.9
Liquid resources	21.9	24.7	—	(0.4)	46.2
Total	(725.2)	(207.1)	(7.7)	18.8	(921.2)

Cash flow on financing of £(317.2) million is split between new loans of £(834.0) million, loans repaid of £516.3 million and capital element of finance leases repaid of £0.5 million.

20. Cash, Liquid Resources and Financing (continued)

Analysis of movement in the EMI Group's net borrowings in the year ended 31 March 1999

	At 1 April 1998 (£ million)	Cash flow (£ million)	Acquisitions/ disposals (£ million)	Exchange movement (£ million)	At 31 March 1999 (£ million)
Cash at bank and in hand	183.4	(39.5)	—	5.7	149.6
Overdrafts	(128.6)	66.1	—	(6.7)	(69.2)
Cash	54.8	26.6	—	(1.0)	80.4
Debt due after more than one year	(121.5)	78.7	—	(1.0)	(43.8)
Debt due within one year	(919.1)	161.6	—	(20.5)	(778.0)
Finance leases	(5.8)	0.4	—	(0.3)	(5.7)
Financing	(1,046.4)	240.7	—	(21.8)	(827.5)
Investments: liquid funds	1.9	(0.5)	—	—	1.4
Cash deposits	36.2	(15.8)	—	0.1	20.5
Liquid resources	38.1	(16.3)	—	0.1	21.9
Total	(953.5)	251.0	—	(22.7)	(725.2)

Cash flow on financing of £240.7 million is split between new loans of £(628.4) million, loans repaid of £867.8 million and capital element of finance leases repaid of £1.3 million.

Analysis of movement in the EMI Group's net borrowings in the year ended 31 March 1998

	At 1 April 1997 (£ million)	Cash flow (£ million)	Disposal of HMV (£ million)	Exchange movement (£ million)	At 31 March 1998 (£ million)
Cash at bank and in hand	146.2	53.6	—	(16.4)	183.4
Overdrafts	(88.6)	(49.6)	—	9.6	(128.6)
Cash	57.6	4.0	—	(6.8)	54.8
Debt due after more than one year	(155.3)	23.8	8.2	1.8	(121.5)
Debt due within one year	(301.5)	(634.8)	—	17.2	(919.1)
Finance leases	(8.2)	2.1	0.3	—	(5.8)
Financing	(465.0)	(608.9)	8.5	19.0	(1,046.4)
Investments: liquid funds	35.6	(33.2)	—	(0.5)	1.9
Cash deposits	64.6	40.3	(62.0)	(6.7)	36.2
Liquid resources	100.2	7.1	(62.0)	(7.2)	38.1
Total	(307.2)	(597.8)	(53.5)	5.0	(953.5)

Cash flow on financing of £(608.9) million is split between new loans of £(717.9) million, loans repaid of £106.9 million and capital element of finance leases repaid of £2.1 million.

20. Cash, Liquid Resources and Financing (continued)

The Group's net borrowings at 31 March 2000 comprised:

	Cash (£ million)	Liquid resources and financing (£ million)	Net borrowings (£ million)
Investments: liquid funds	—	1.3	1.3
Cash at bank and in hand and cash deposits	221.7	44.9	266.6
Borrowings due within one year	(55.3)	(752.9)	(808.2)
Borrowings due after more than one year	—	(380.9)	(380.9)
At 31 March 2000	166.4	(1,087.6)	(921.2)
Investments: liquid funds	—	1.4	1.4
Cash at bank and in hand and cash deposits	149.6	20.5	170.1
Borrowings due within one year	(69.2)	(779.1)	(848.3)
Borrowings due after more than one year	—	(48.4)	(48.4)
At 31 March 1999	80.4	(805.6)	(725.2)
At 31 March 1998	54.8	(1,008.3)	(953.5)

21. Other Creditors: Amounts falling due within one year

	2000 (£ million)	1999 (£ million)	1998 (£ million)
Trade creditors	131.4	123.5	128.2
Royalties and fees payable	561.9	592.6	552.1
Amounts owed to associated undertakings	0.6	0.6	0.6
Corporate taxation	156.0	145.8	175.9
Other taxes inc. VAT and social security costs	17.9	22.4	19.0
Dividends payable	92.7	125.7	92.6
Other creditors	81.6	82.0	79.4
Accruals and deferred income	159.9	157.5	158.1
	1,202.0	1,250.1	1,205.9

22. Other Creditors: Amounts falling due after more than one year

	2000 (£ million)	1999 (£ million)	1998 (£ million)
Corporate taxation	0.1	0.1	3.4
Deferred consideration payable	9.8	3.0	4.3
Accruals and deferred income	27.7	21.0	29.0
	37.6	24.1	36.7

23. Deferred Taxation

	2000 (£ million)	1999 (£ million)	1998 (restated) (£ million)
Excess of accumulated taxation allowances over depreciation provided against tangible fixed assets	13.0	14.1	14.2
Other timing differences	14.8	19.5	19.6
Advance corporation tax*	—	—	(9.3)
	27.8	33.6	24.5
Movements during the year:			
Opening balance	33.6	24.5	
Currency retranslation	(1.2)	0.9	
Charged to profit on ordinary activities	(4.6)	(1.7)	
Other movements	—	9.9	
At 31 March	27.8	33.6	

* *Following the abolition of ACT, it is no longer appropriate to offset ACT against deferred tax.*

No provision has been made for further taxes which could arise if subsidiary or associated undertakings are disposed of or if overseas companies were to remit dividends to the UK in excess of those anticipated in these accounts; it is considered impracticable to estimate the amount of such taxes.

There is no unprovided deferred tax liability as at 31 March 2000.

24. Other Provisions for Liabilities and Charges

	Trading (£ million)	Pensions (£ million)	Disposal and fundamental reorganisation (£ million)	Acquisition and integration (£ million)	Total (£ million)
At 31 March 1998 (as reported)	83.4	47.9	59.4	20.0	210.7
Prior year adjustment (see Note 34)	—	—	(27.1)	(3.9)	(31.0)
At 31 March 1998 (restated)	83.4	47.9	32.3	16.1	179.7
Currency retranslation	0.4	4.5	0.2	0.2	5.3
Provisions utilised	(63.1)	(4.0)	(11.1)	(1.1)	(79.3)
Charged against:					
Operating profit	8.1	1.6	—	0.1	9.8
Exceptional items	—	—	—	—	—
Acquisition of businesses	—	—	—	12.6	12.6
Reclassification	(1.0)	1.0	—	—	—
At 31 March 1999	27.8	51.0	21.4	27.9	128.1
Currency retranslation	(0.8)	(1.0)	(1.6)	1.1	(2.3)
Provisions utilised	(10.3)	(10.9)	(1.5)	(3.3)	(26.0)
Charged against:					
Operating profit	8.4	6.8	—	4.0	19.2
Exceptional items	—	—	5.5	—	5.5
Acquisition (disposal) of businesses	—	(1.3)	—	5.9	4.6
Reclassification	1.1	—	—	—	1.1
At 31 March 2000	26.2	44.6	23.8	35.6	130.2

24. Other Provisions for Liabilities and Charges (continued)

The pension provisions arise in overseas companies in respect of state schemes and employees covered by the EMI Group's unfunded schemes.

Trading provisions include royalty audit and other trading provisions charged through operating profit before exceptional items and restructuring and reorganisation provisions charged through operating exceptional items.

Provisions utilised relating to restructuring and reorganisation provisions in the cash flow include £2.9 million (1999: £47.5 million) spent against the EMI Music restructuring provision set up in 1998.

Provisions utilised relating to disposals and fundamental reorganisations in the cash flow includes £nil (1999: £0.6 million) spent against the provision for HMV disposal costs set up in 1998 and £1.5 million (1999: £5.6 million) spent against disposal provisions set up in previous years.

25. Share Capital and Share Premium Account

	Authorised			Allotted called-up & fully paid		
	2000 (£ million)	1999 (£ million)	1998 (£ million)	2000 (£ million)	1999 (£ million)	1998 (£ million)
Ordinary Shares of 14p each	158.8	158.8	158.8	110.4	110.2	110.1
B Shares of 114.5p each	479.8	479.8	479.8	—	—	—
Deferred shares of 0.0005p each	17.5	17.5	17.5	—	—	—
	656.1	656.1	656.1	110.4	110.2	110.1

(i) Ordinary Shares in issue

	Number	Nominal value (£ million)	Premium (£ million)
At 31 March 1998	786,753,057	110.1	439.0
Shares issued during the year on the exercise of options:			
Executive Schemes	577,743	0.1	2.1
Savings-Related Schemes	16,231	—	0.1
At 31 March 1999	787,347,031	110.2	441.2
Shares issued during the year on the exercise of options:			
Executive Schemes	971,913	0.2	3.4
Savings-Related Schemes	4,081	—	—
At 31 March 2000	788,323,025	110.4	444.6

25. Share Capital and Share Premium Account (continued)

(ii) Share Options

Options to subscribe for EMI's Ordinary Shares were outstanding as follows (adjusted for the 1992 rights issue, the 1996 demerger and the 1997 share capital reorganisation, where appropriate):

	Executive Share Option Schemes		Savings-Related Share Option Schemes
	1984 Scheme	1995 Scheme	1994 Scheme
At 31 March 1998	2,135,047	8,098,958	1,524,208
Granted	—	590,768	498,888
Exercised	(518,070)	(59,673)	(16,231)
Lapsed	(52,300)	(2,398,801)	(945,711)
At 31 March 1999	1,564,677	6,231,252	1,061,154
Granted	—	1,283,142	426,628
Exercised	(844,532)	(127,381)	(4,081)
Lapsed	(15,944)	(1,081,568)	(210,255)
	704,201	6,305,445	1,273,446
At 31 March 2000			
Option price per 14p share (range)	263.155p-534p	14p-747p	415p-466p
Final exercise dates*	July 2004	December 2009	October 2004

* *Options granted under the 1984 THORN EMI Executive Share Option Scheme are normally exercisable no earlier than three years and no later than 10 years following the date of grant, as are options granted under the 1995 EMI Group Executive Share Option Scheme (which are however subject to the achievement of performance requirements which must be met before the options normally become exercisable). Options granted under the 1994 EMI Group Savings-Related Share Option Scheme are normally exercisable for a six month period following completion of savings to either a three or a five year savings contract.*

(iii) Share Premium Account

The principal elements that make up EMI's Share Premium account arose as follows:

	Years arising	(£ million)
Conversions to Ordinary Shares of 7% Convertible Redeemable Second Cumulative Preference Shares 1992/99 of £1 each	1989/90 and 1990/91	56.7
A placing of Ordinary Shares linked to the offer for Thames Television Ltd	1990/91	78.0
Issue of Ordinary Shares on exercise of subscription rights of warrants originally attached to $7\frac{3}{8}\%$ bonds due 1992; and	1991/92	67.1
the transfer from other reserves in respect of amounts paid for the warrants exercised	1991/92	10.2
Issue of Ordinary Shares on conversion of Convertible Unsecured Loan Stock to fund the acquisition of Virgin Music Group Ltd	1992/93	508.4
Issue of Ordinary Shares on conversion of $5\frac{3}{4}\%$ Guaranteed Redeemable Preference Shares 2004 of THORN EMI Capital NV	1993/94	126.0
Share capital reorganisation (inc. issue of Redeemable Preference B Shares)	1997/98	(501.2)
Other issues of Ordinary Shares		99.4
Balance at 31 March 2000		444.6

26. Reserves

	Other reserves (£ million)	Capital redemption reserve (£ million)	Goodwill (£ million)	Profit and loss reserve (£ million)
At 31 March 1998 (as reported)	257.5	495.8	(1,449.5)	(505.5)
Prior year adjustment (see Note 34)	—	—	1,449.5	(1,575.7)
At 31 March 1998 (restated)	257.5	495.8	—	(2,081.2)
Currency translation	—	—	—	(7.8)
Goodwill arising in the year				
— joint venture	—	—	—	11.5
— subsidiary undertakings	—	—	—	(16.7)
Profit attributable to members of the Holding Company	—	—	—	122.6
Equity dividend	—	—	—	(125.6)
Revaluation of property	(1.5)	—	—	—
Transfer of realised reserves	—	—	—	—
At 31 March 1999	256.0	495.8	—	(2,097.2)
Currency translation	—	—	—	28.7
Goodwill adjustments				
— joint venture	—	—	—	(2.1)
— subsidiary undertakings	—	—	—	2.3
Profit attributable to members of the Holding Company	—	—	—	158.4
Equity dividend	—	—	—	(125.1)
Minority interest adjustment	—	—	—	0.6
At 31 March 2000	256.0	495.8	—	(2,034.4)

The EMI Group reserves include £5.6 million (1999: £5.4 million, 1998: £0.5 million) in respect of its share of post-acquisition retained losses of joint ventures and associated undertakings.

In accordance with the exemption permitted by S230(3) of the Companies Act 1985, the profit and loss account of EMI is not separately presented. The profit attributable to shareholders, dealt with in the accounts of EMI, is £739.4 million (1999: £157.4 million, 1998: £839.0 million).

The EMI Group profit and loss reserve includes £1,454.5 million (1999: £1,454.7 million, 1998: £1,449.5 million) in respect of goodwill previously written off.

27. Minority Interests (Equity)

	2000 (£ million)	1999 (£ million)	1998 restated (£ million)
Toshiba-EMI Ltd (Japan)	69.3	49.3	39.8
Jobete Music Co., Inc. (US)	64.3	66.3	68.9
Other	2.6	3.8	3.8
	136.2	119.4	112.5

28. Financial Commitments

	2000 (£ million)	1999 (£ million)	1998 (£ million)
Capital expenditure: Contracted	12.4	6.6	3.6

The EMI Group has commitments, which are largely performance related, to pay advances to artists and repertoire and repertoire owners amounting to £367.9 million at 31 March 2000 (1999: £349.1 million, 1998: £361.4 million).

Annual commitments under operating leases at 31 March were as follows:

	2000 (£ million)	1999 (£ million)	1998 (£ million)
Land and buildings:			
Expiring in the first year	4.2	2.1	1.7
Expiring in the second to fifth years inclusive	11.9	11.1	12.1
Expiring after the fifth year	4.2	4.3	4.5
	20.3	17.5	18.3
Plant, equipment and vehicles:			
Expiring in the first year	2.6	1.0	1.2
Expiring in the second to fifth years inclusive	4.4	5.1	5.9
Expiring after the fifth year	0.1	—	0.1
	7.1	6.1	7.2

29. Contingent Liabilities

EMI is subject to several private civil lawsuits in the US alleging violations of antitrust, unfair trade practices and consumer protection laws. These actions include (i) lawsuits brought by retailers, which are currently pending in federal court in California, alleging that the major record companies violated federal antitrust laws in setting wholesale prices of CDs, and (ii) several putative class action lawsuits brought by consumers, which have been filed in various federal and state courts, alleging violations of antitrust, unfair trade practices and consumer protection statutes in several jurisdictions. In addition, EMI is the subject of a currently open investigation by the Florida State Attorney General, which has involved other State Attorneys General, to determine whether there is, has been, or may be conduct that violates state antitrust and unfair trade practices laws. EMI management believes all such claims to be without any merit. Adverse verdicts in these matters, however, could result in material losses to EMI. Due to the lack of specificity of plaintiffs' claims, the procedural position in the cases and the investigation, and other factors, a range of potential loss is not determinable at this time.

On 25 February 2000, a class action lawsuit was filed in the US alleging that as a result of allegedly false and misleading statements concerning the licensing agreement between Virgin Holdings, Inc., an indirectly wholly owned subsidiary of EMI, and musicmaker.com, Inc. ("musicmaker"), the price of musicmaker's stock was artificially high. Five similar actions have subsequently been filed. These litigations are at an early stage, but on the basis of information presently available management believes that these claims are unlikely to result in material loss to EMI. However, an adverse verdict could result in material loss to EMI, but as the cases are at a very early stage, a range of potential loss cannot yet be determined.

The Directors are not aware of any other legal or arbitration proceedings pending or threatened against any member of the EMI Group which may have any liability significantly in excess of provisions in the accounts.

Guarantees and other contingent liabilities (other than those relating to HMV and HMV Media – see below) total £14.8 million (1999: £15.1 million, 1998: £16.8 million) for the EMI Group, of which £8.7 million (1999: £10.9 million, 1998: £13.5 million) relate to certain contracts entered into by former EMI Group companies. There are several guarantees and other contingent liabilities in respect of HMV and HMV Media. (See Note 33 for details).

29. Contingent Liabilities (continued)

Pursuant to the provisions of the Irish Companies (Amendment) Act 1986, EMI has guaranteed the liabilities of its Irish subsidiaries, thus exempting those companies from the requirement to file their annual accounts in Ireland.

30. Pension Arrangements

The EMI Group operates a number of pension schemes throughout the world. The main scheme, which covers employees in the UK is the EMI Group Pension Fund ("the Fund"). Staff engaged outside the UK are covered by local arrangements which, in the case of EMI Group schemes, are largely of the defined contribution type. The assets of EMI Group's pension schemes are held mainly in separate trustee administered funds.

The Fund is based in the UK and is of the defined benefit type. The Fund is open to all permanent employees over the age of 18 employed by the Company and certain subsidiaries in the UK. Benefits provided by the Fund are based on final pensionable pay. Pensions payable from the Fund are guaranteed to increase by 5 per cent. per annum, or by the cost of living if less. Members contribute to the Fund at the rate of 4 per cent. of pensionable pay.

The latest available actuarial valuation of the Fund was made by a qualified actuary as at 1 April 1997 using the projected unit method. At that date, the market value of the assets of the Fund was taken to be £809.8 million. The actuarial value of the assets was sufficient to cover 121 per cent. of the value of the benefits that had accrued to the members, after allowing for assumed increases in earnings. Part of the surplus disclosed by the 1997 valuation was allocated towards a reduction of employer contributions below the long-term rate, the balance being carried forward as a reserve in the Fund.

Employer expense in respect of the Fund has been calculated in accordance with Statement of Standard Accounting Practice 24 – *Accounting for Pension Costs* (SSAP 24). On the basis of actuarial advice, it is calculated that the employer expense would represent a credit to the profit and loss account on full application of SSAP 24 principles. However, for reasons of conservatism, such expense has been taken as nil for the three years ended 31 March 2000. The long-term financial assumptions used to calculate employer expense under SSAP 24 are shown below:

	Growth relative to investment return
Rate of investment return	8.0% p.a.
Rate of pay increases	6.0% p.a.
Rate of pension increases	3.5% p.a.
Rate of dividend growth	4.5% p.a.

These rates included allowance for the effects of the tax credit changes introduced by the Finance (No. 2) Act 1997.

Employer contributions of £12.9 million (1999: £11.6 million, 1998: £15.8 million) were charged to the profit and loss account. These contributions primarily related to overseas schemes and were determined in accordance with local practice. Other post retirement benefits expenses of £1.1 million (1999: £nil, 1998: £nil) were charged to the profit and loss account.

31. Purchase of Businesses

Acquisitions during the year include Windswept Pacific copyrights, Hit & Run Music Publishing, Pelago (an Italian music publishing company), Castalian (a US recorded music company), Be's Songs (a Belgian music publishing company), and Norske Gram (a Norwegian recorded music company).

The combined fair value to the EMI Group is shown below:

	Book value of assets acquired 2000 (£ million)	Adjustments 2000 (£ million)	Fair value to the Group 2000 (£ million)
Music copyrights	—	165.1	165.1
Tangible fixed assets	0.2	—	0.2
Stocks	1.0	(0.2)	0.8
Debtors	7.8	(0.8)	7.0
Creditors	(15.1)	—	(15.1)
Tax	(0.1)	—	(0.1)
Minority interests	0.7	—	0.7
Borrowings	(7.7)	—	(7.7)
Net assets acquired (before cash)	(13.2)	164.1	150.9
Goodwill capitalised			15.9
Earnout liabilities paid			2.3
Provisions for future earnout liabilities			(10.5)
Deferred consideration payable			(9.5)
Net cash consideration			149.1
Satisfied by:			
Total consideration			170.8
Deferred consideration payable and future earnout provisions			(20.0)
Cash consideration			150.8
Net cash acquired			(1.7)
Net cash consideration			149.1

The adjustments to book value of £164.1 million were made to bring the valuation of the assets acquired in line with the EMI Group's accounting policies.

Goodwill arising on acquisitions in the year ended 31 March 2000 comprises:

	2000 (£ million)
Total consideration	170.8
Net cash acquired	(1.7)
	169.1
Fair value to the Group (before cash acquired)	(150.9)
Earnout provisions utilised or written back	(4.6)
Goodwill	13.6

The goodwill includes £15.9 million of capitalised goodwill and £(2.3) million relating to prior years' acquisitions which has been written off against reserves. Adjustments to goodwill written off to reserves arise on adjustments to estimates of future earnout liabilities for prior years' acquisitions.

All acquisitions have been accounted for using the acquisition method.

31. Purchase of Businesses (continued)

Several small acquisitions were made in the year ended 31 March 1999, including Assist (an Italian recorded music company), Higher Octave (a US recorded music company) and Quattro Musikverlag (a German music publishing company). The combined fair value to the EMI Group is shown below:

	Book value of assets acquired 1999 (£ million)	Adjustments 1999 (£ million)	Fair value to the Group 1999 (£ million)
Music copyrights	1.1	4.3	5.4
Tangible fixed assets	0.1	(0.2)	(0.1)
Stocks	0.5	(0.5)	—
Debtors	0.5	(0.2)	0.3
Creditors	(1.6)	(4.8)	(6.4)
Minority interests	1.7	—	1.7
Net assets acquired (before cash)	2.3	(1.4)	0.9
Goodwill capitalised			11.7
Adjustments to goodwill written off to reserves			16.7
Provisions for future earnout liabilities			(12.6)
Deferred consideration payable			(1.8)
Net cash consideration			14.9
Satisfied by:			
Total consideration			29.4
Deferred consideration payable and earnout provisions			(14.4)
Cash consideration			15.0
Net cash acquired			(0.1)
Net cash consideration			14.9

The adjustments to book value of £(1.4) million were made to bring the valuation of the assets acquired in line with the EMI Group's accounting policies.

Goodwill arising on acquisitions in the year ended 31 March 1999 comprises:

	1999 (£ million)
Total consideration	29.4
Net cash acquired	(0.1)
	29.3
Fair value to the Group (before cash acquired)	(0.9)
Goodwill	28.4

The goodwill includes £11.7 million of capitalised goodwill and £16.7 million relating to prior years' acquisitions which has been written off against reserves. Adjustments to goodwill written off to reserves arise on adjustments to estimates of future earnout liabilities for prior years' acquisitions.

All acquisitions have been accounted for using the acquisition method.

32. Disposal of businesses

Net cash outflow from disposal of businesses includes the disposal of the EMI Group's Italian manufacturing operations and additional costs relating to a prior year disposal.

	2000 (£ million)
Tangible fixed assets	3.6
Stocks	0.2
Debtors	2.4
Creditors and provisions	(5.5)
Net assets disposed of	0.7
Loss on disposal	(4.4)
Cash outflow on disposal	(3.7)
Comprised of:	
Cash disposed of	(1.5)
Disposal costs	(2.2)
	(3.7)

1999 £nil.

33. Related Party Transactions

EMI has taken advantage of the exemption under Financial Reporting Standard 8 – Related Party Disclosures (FRS8) not to disclose related party transactions between EMI Group subsidiary undertakings. The EMI Group had several transactions with other related parties during the years ended 31 March 1999 and 31 March 2000.

(i) HMV and HMV Media

On 25 February 1998, the EMI Group entered into an agreement for the sale of the companies and assets comprising HMV to HMV Media. On or about 28 March 1998 ("Completion") the sale of the companies and assets of HMV in the UK, Japan, Ireland, Singapore and Germany was completed and the EMI Group received £418 million (subject to certain further adjustments) as consideration for the sale. On 28 March 1998 the Company also acquired a 45.2 per cent. equity stake, and 50 per cent. of the Junior Preference Shares in HMV Media for £87.5 million.

Completion of the sale of the companies and assets of HMV in Canada, the United States, Australia and Hong Kong occurred during the year ended 31 March 1999, in respect of which the EMI Group received consideration, less price adjustments following Completion, amounting to £43.2 million.

An additional £25 million, in the form of deferred consideration, will be receivable on the earlier of a listing of any part of the share capital of HMV Media on any recognised stock exchange, the sale of at least 75 per cent. of the voting rights of HMV Media or 28 March 2003. In addition, an amount of up to £25 million further consideration is contingent and will be receivable if Advent International Corporation and related investors achieve a specified return on their investment in HMV Media on a listing or sale. Such deferred and contingent consideration is subordinated in right of payment to certain other liabilities and payments. None of this additional £50 million consideration has been recognised in the calculation of the EMI Group's profit on disposal for reasons of prudence.

As a result of additional equity and preference share issues during the year ended 31 March 1999 by HMV Media, in which EMI subscribed £9 million for additional ordinary and preference shares, EMI now owns a 42.65 per cent. (39.90 per cent. fully diluted) equity stake in HMV Media, and 18.08 per cent. and 49.15 per cent. respectively of HMV Media's Senior "A" Preference Shares and Junior Preference Shares.

33. Related Party Transactions (continued)

On 28 March 1998, the EMI Group lent HMV Media £200 million to part finance the acquisitions of HMV and Waterstone's by HMV Media. The EMI Group received a commitment fee of 1.25 per cent. of the principal amount of £200 million and an additional funding fee of 1.25 per cent. of the principal amount. The facility also carried an interest rate per annum equal to LIBOR plus a margin of four per cent. The facility was repaid in full on 22 May 1998.

The EMI Group has also made available to HMV Media a £50 million working capital revolving credit facility (the "EMI Revolving Credit Facility"). An initial £11 million of this facility was drawn on 2 May 2000 and matured on 16 May 2000; on 16 May 2000 the amount drawn was reduced to £8 million with a maturity date of 23 May 2000. The facility carries an interest rate per annum equal to LIBOR plus a margin.

As part of the transaction, the EMI Group also entered into an indemnity deed with HMV Media relating, among other things, to guarantees given by the EMI Group of approximately 102 leases. Under the deed HMV Media agreed to indemnify the EMI Group against any payments made under those and certain other guarantees and indemnities. HMV Media has undertaken to use reasonable efforts to arrange for the release of these guarantees. The aggregate annual rental payments under guaranteed leases are approximately £30 million, although they are subject to adjustment both up and down under certain circumstances. The guaranteed leases have terms expiring from one to 26 years, and many of the leases expire in years beyond 2010.

All of HMV Media's obligations to the EMI Group in respect of the EMI Revolving Credit Facility and indemnity deed are secured under a debenture.

During the year ended 31 March 2000, companies within the EMI Group made sales of £73.4 million (1999: £63.8 million) to companies within HMV Media.

At 31 March 2000, a total of £7.9 million (1999: £7.2 million) was due to companies within the EMI Group from companies in HMV Media.

(ii) Other

Two of the EMI Group's employees who are members of the Board of Directors of musicmaker.com, Inc., a company in which the EMI Group owns an equity stake of 36.51 per cent., have been granted options over the common stock of musicmaker.com., Inc.

During the year the EMI Group sold its Italian manufacturing operations to a management buyout team. Details of this disposal are included within the disposal of businesses note 32 on page 117.

In May 1995, the EMI Group acquired a majority holding of 75 per cent. in Disky Communications Europe BV ("Disky") from Hermans Holdings BV and agreed to acquire the remaining 25 per cent. by no later than 31 March 2000. In April 1997, the agreement was varied so that the remaining minority interest would be acquired no later than 31 March 2004. In September 1999, the agreement was further varied to defer purchase of the whole of the remaining 25 per cent. interest to March 2004 and to increase the maximum consideration payable by the EMI Group for this acquisition by £16.6 million. As part of these arrangements, the EMI Group paid Hermans Holdings BV NLG10 million (£3.1 million) as a non-returnable advance payment against the purchase price for the shares. Hermans Holdings BV is an associate of Mr Kees Hermans, who is the Managing Director of Disky and who, under the terms of the contract, will continue to manage Disky until March 2004.

In 1995, the EMI Group acquired a majority holding of 51.3 per cent. of Antler Subway Records NV, with a call option to acquire the remaining shares. In September 1999, the EMI Group agreed to acquire the remaining 48.7 per cent. from the founding directors in two stages, with an initial payment of £0.3 million for a further 30 per cent. stake, and the remaining 18.7 per cent. to be acquired within two years. As part of the agreement, the founding directors are contracted until 31 December 2003.

In March 2000, the EMI Group entered into discussions to purchase the remaining 40 per cent. minority interest in Octoarts EMI Music, Inc. from the minority partner for PP$1 million (£15 thousand at current exchange rates). In addition, as part of this transaction, the EMI Group will pay the minority partner PP$94 million (£1.5 million at current exchange rates) for support in marketing Philippines repertoire to the overseas Philippine communities in the rest of the world. The minority partner's brother is the Managing Director of Octoarts EMI Music, Inc.

33. Related Party Transactions (continued)

Mr Emanuel de Buretel, who is President of Virgin Records SA and of Virgin Music – Continental Europe, owns 50 per cent. of the share capital of Delabel Editions SARL ("Delabel"), the remaining shares being held by EMI France SA. Pursuant to Heads of Agreement dated 31 July 1998, Mr de Buretel and EMI France SA have entered into certain put and call options, normally exercisable as from September 2003, whereby Mr de Buretel may either sell his 50 per cent. shareholding in Delabel to EMI France SA, or Mr de Buretel may acquire EMI France's shareholding, in each case at a price based on pre-determined multiples of Delabel's Net Publishers' Share. The price at which Mr de Buretel may sell his shares in Delabel to EMI France SA is capped at £15 million. EMI France SA also agreed to transfer a further one per cent. shareholding in Delabel Editions SARL to Mr de Buretel with immediate effect.

In addition, Mr de Buretel also agreed to subscribe at par for 17 per cent. of the share capital of a new UK record label company, in which Virgin Records Limited subscribed for 75 per cent. of the shares also at par. Virgin Records Limited is also responsible for providing the new company with loan funding in accordance with an agreed business plan, up to a maximum of £8 million.

34. Prior Year Adjustment

As explained in Changes in accounting policies and presentation of financial information on page 74, FRS9 – *Associates and Joint Ventures*, FRS10 – *Goodwill and Intangible Assets* and FRS12 – *Provisions, Contingent Assets and Contingent Liabilities* were adopted with effect from 1 April 1998. To reflect these changes in accounting policies, the comparatives for the year ended 31 March 1998 and, therefore, the opening balances for the year ended 31 March 1999 have been restated as follows:

(i) Music copyrights:

	Year ended 31 March 1998	
	(£ million)	(£ million)
As reported		529.1
Prior year adjustments (FRS10):		
Amortisation for the period from acquisition to 31 March 1997	(134.1)	
Amortisation charge for the year ended 31 March 1998	(27.0)	
Currency restranslation	4.2	
		(156.9)
As restated		372.2

(ii) Investments in associates:

	Year ended 31 March 1998 (£ million)
As reported	13.7
Prior year adjustment (FRS9: HMV Media joint venture)	(8.4)
As restated	5.3

34. Prior Year Adjustment (continued)

(iii) Provisions:

	Year ended 31 March 1998 (£ million)	(£ million)
As reported		(210.7)
Prior year adjustments (FRS12):		
Balance at 31 March 1997	104.2	
Operating exceptional charge for the year ended 31 March 1998	(92.6)	
Non-operating exceptional credit for the year ended 31 March 1998	19.4	
		31.0
As restated		(179.7)

(iv) Profit and loss reserve:

	Year ended 31 March 1998 (£ million)	(£ million)
As reported		
Profit and loss reserve		(505.5)
Goodwill reserve		(1,449.5)
		(1,955.0)
Prior year adjustments:		
Music copyright amortisation (FRS10)	(156.9)	
Provisions (FRS12)	31.0	
Other (FRS12)	(3.9)	
Minority interests – music copyright amortisation (FRS10)	3.6	
		(126.2)
As restated		(2,081.2)

(v) Minority interests (balance sheet):

	Year ended 31 March 1998 (£ million)	(£ million)
As reported		116.1
Prior year adjustments:		
Credit for year re: music copyright amortisation	(3.8)	
Currency retranslation	0.2	
		(3.6)
As restated		112.5

The impact of these changes in accounting policy on the year ended 31 March 1999 is similar to the quantified effect on the year ended 31 March 1998. The profit and loss account includes charges for amortisation on copyrights and capitalised goodwill. The EMI Group operating profit is disclosed before the EMI Group's share of associates and joint ventures and the minority interest is impacted by the music copyright amortisation charge. In the balance sheet, music copyrights have been amortised, goodwill relating to acquisitions subsequent to 1 April 1998 has been capitalised and amortised rather than being written off to reserves, the EMI Group's investment in HMV Media has been treated as a joint venture, provisions have been impacted as for the year ended 31 March 1998, and reserves and minority interests have been impacted as for the year ended 31 March 1998 in addition to the changes to the profit and loss account above.

35. Significant Investments

The businesses set out below are those which are part of the EMI Group at 31 March 2000 and in the opinion of the Directors significantly affected the EMI Group's results and net assets during the year. Except where otherwise stated, the country of incorporation is England, the operations are within the UK, the shares are in equity share capital and the businesses are wholly owned.

Subsidiary undertakings

EMI Music
Capitol-EMI Music, Inc. (US)
Capitol Records, Inc. (US)
Chrysalis Records Ltd
EMI Electrola GmbH (Germany)
EMI Entertainment World, Inc. (US)
EMI Music Australia Pty Ltd (Australia)
EMI Music France S.A. (France)
EMI Music Italy SpA (Italy)
EMI Music Publishing Ltd
EMI Records Ltd
Groupe Virgin Disques S.A. (France)
Jobete Music Co., Inc. (US) (50 per cent. owned)#
Priority Records, LLC (US)
Toshiba-EMI Ltd (Japan) (55 per cent. owned)
Virgin Records America, Inc. (US)
Virgin Records Ltd
Virgin Schallplatten GmbH (Germany)

Corporate
EMI Group Finance plc
EMI Group Holdings (UK) Ltd*
EMI Group International Holdings Ltd
EMI Group North America Holdings, Inc. (US)
EMI Group North America, Inc. (US)
EMI Group Worldwide Ltd*

* *Held directly by EMI.*

\# *Jobete Music Co., Inc. has been consolidated as a subsidiary, even though it is only 50 per cent. owned, in accordance with section 258(4) of the Companies Act 1985.*

Joint venture

The principal investment of the EMI Group in the equity share capital of the joint venture at 31 March 2000 was as follows:

	Business	Location†	Equity holding
HMV Media Group plc................	Retail – books & recorded music	England	42.65%

† *Country of incorporation. The UK and Canada are the principal countries of operation.*

At 31 March 2000, the EMI Group held a 42.65 per cent. equity stake – 41.10 per cent. of Ordinary Shares, 100 per cent. of the "B" Preferred Ordinary Shares and none of the "A" Preferred Ordinary Shares; 18.08 per cent. of the Senior "A" Preference Shares; and 49.15 per cent. of the Junior Preference Shares in HMV Media.

Extract from the Remuneration Report

(i) Year ended 31 March 2000

The Executive Directors' retirement benefits and contributions during the year were as follows:

Executive Directors' retirement benefits and contributions

				Defined benefit plan only Accrued pension entitlement	
	Age as at 31 March 2000 Years	Directors' contributions in year £'000	Company contributions in year[a] £'000	Increase in year[b] £'000 pa	Total as at 31 March 2000[c] £'000 pa
E L Nicoli (appointed Chairman Designate 1 May 1999)	49	3	222[d]	1	1
M N Bandier	58	194	332	—	—
A J Bates (appointed 1 January 2000)	43	1	153[d]	1	23
K M Berry	48	—[e]	Nil	59	195
Sir Colin Southgate (resigned 16 July 1999)	61	8	Nil	17	444
S P Duffy (resigned 31 December 1999)	50	3	57[d]	3	24

a *Company contributions shown are to defined contribution plans only. The comparative 1999 figure was £310,000. EMI made no contribution to the UK Pension Fund in respect of the Executive Directors (due to a continuation of its suspension of contributions as a result of the Fund's strong financial position).*

b *The increase during the year, net of the effect of inflation, on the pension built up to 31 March 1999 (or actual date of appointment if later), to which each Director would be entitled from normal retirement age had he left employment at 31 March 2000 or actual date of leaving, if earlier.*

c *The total accrued pension entitlement to which each Director would be entitled from normal retirement age had he left employment at 31 March 2000 or actual date of leaving, if earlier. Sir Colin Southgate reached his normal retirement date at 24 July 1998 and opted to defer payment of his pension to 1 August, 1999. The total accrued pension entitlement as at the actual date of leaving and the increase in the year includes an allowance for late payment.*

d *Individual figures include an amount paid in respect of the tax charge arising from EMI's contributions on base salary in excess of the Cap, as follows:*

	£	
E L Nicoli	*88,726*	
A J Bates	*61,336*	
S P Duffy	*22,934*	
Total	*172,996*	*(1999: £29,394)*

e *Mr Berry's contributions to the UK pension fund are currently suspended during an assignment to the US. On his return to the UK, Mr Berry will recommence contributions at a rate sufficient to recover any shortfall.*

Extract from the Remuneration Report (continued)

(i) Year ended 31 March 2000 (continued)

Remuneration details

Annual remuneration[a]

	Base salary or fees £'000	Compensation for loss of office £'000	Benefits £'000	Incentive remuneration £'000	2000 Total in year £'000	1999 Total in year £'000
Executive Directors:						
E L Nicoli (appointed as Chairman Designate 1 May 1999)	481.3	—	55.4	385.0	921.7	22.5
M N Bandier	1,308.6	—	48.9	1,111.1	2,468.6	2,052.2
A J Bates (appointed 1 January 2000)	118.1	—	7.7	94.5	220.3	—
K M Berry[b]	1,851.8	—	193.6[c]	1,234.6	3,280.0	2,060.2
Sir Colin Southgate (resigned 16 July 1999)	199.4	812.0	9.0	—	1,020.4	591.8
S P Duffy (resigned 31 December 1999)	246.8	—	12.6	—	259.4	415.4
J G Fifield (resigned 17 April 1998)	—	—	—	—	—	6,728.1
Non-executive Directors:						
Sir Dominic Cadbury	42.4	—	—	—	42.4	22.5
H Einsmann	26.3	—	—	—	26.3	22.5
M R Jackson (appointed 19 October 1999)	13.6	—	—	—	13.6	—
H R Jenkins	26.3	—	—	—	26.3	22.5
K A O'Donovan	28.7	—	—	—	28.7	22.5
Sir Peter Walters (resigned 16 July 1999)	15.5	—	—	—	15.5	52.5
Sir Graham Day (resigned 17 July 1998)	—	—	—	—	—	7.5
Total 2000	4,358.8	812.0	327.2	2,825.2	8,323.2	
Total 1999	4,001.6	6,385.5	669.3	963.8		12,020.2

a *Excludes retirement contributions (see table on page 122) and the value of share awards ceasing to be contingent, as reported in the table shown below.*

b *Highest-paid Director.*

c *Includes value of housing provided by the EMI Group in the US on a rent-free basis, and tax equalisation payments relating to service in California.*

Remuneration from prior year share awards ceasing to be contingent

	Awards No. of shares	2000 Total value[a] £'000	Awards No. of shares	1999 Total value £'000
E L Nicoli (appointed as Chairman Designate 1 May 1999)	21,666[b]	95.4	—	—
M N Bandier	87,500[b]	319.6	120,024[b]	560
A J Bates (appointed 1 January 2000)	17,181[b]	107.0	—	—
K M Berry	181,250[b]	662.0	205,662[b]	910
Sir Colin Southgate (resigned 16 July 1999)	9,970	52.7	13,502	69
S P Duffy (resigned 31 December 1999)	3,540	18.7	4,264	22
J G Fifield (resigned 17 April 1998)	—	—	197,659	1,018
Total	321,107	1,255.4	541,111	2,579

a *The value is based on the share price on the date the awards were granted.*

b *These include a proportion of restricted share awards in order more accurately to match remuneration costs to the time period in which the shares are earned, even though in certain circumstances these awards could lapse or be released before the vesting date.*

Extract from the Remuneration Report (continued)

(i) Year ended 31 March 2000 (continued)

Directors' interests

Directors' interests (all beneficial) in EMI Ordinary Shares[abc]

	As at 31 March 2000 Total Shares held	As at 31 March 2000 Of which Other[d]	As at 1 April 1999 or at a date of appointment, if later Total Shares held	As at 1 April 1999 or at a date of appointment, if later Of which Other[d]
E L Nicoli (appointed Chairman Designate 1 May 1999)[e]	3,794	—	3,686	—
M N Bandier	155,060	—	186,697	141,812
A J Bates (appointed 1 January 2000)[f]	115,442	41,344	99,481	69,481
K M Berry	319,420	162,512	344,772	268,949
Sir Dominic Cadbury	5,000	—	5,000	—
H Einsmann	1,800	—	1,800	—
M R Jackson (appointed 19 October 1999)	739	—	Nil	—
H R Jenkins	1,101	—	1,101	—
K A O'Donovan	Nil	—	Nil	—

a *EMI's Register of Directors' Interests is available for inspection in accordance with the provisions of the Companies Act 1985.*

b *No Director had any interest in either shares or debentures of any subsidiary of EMI.*

c *In this table and those below, Mr. Berry's share interests and awards include share interests and awards for Mrs N A Berry, his wife, who is also an employee of the EMI Group.*

d *'Other' refers to non-contingent share awards under performance-related incentive plans (i.e. they have ceased to be dependent on future performance and/or no longer subject to forfeiture). The Executive Directors also have contingent share interests under performance-related incentive plans, as noted in the table on page 125.*

e *On 27 April 2000, Mr Nicoli's interests in EMI's shares increased by 20 shares on the reinvestment of dividends and tax credits received in respect of shares held by him and his wife through EMI Corporate Personal Equity Plans.*

f *On 24 May 2000, an award to Mr Bates vested under EMI Music's former Long-Term Incentive Plan in respect of the three-year performance period from 1994 to 1997. Of this award, the following dispositions were made:*

	Total award	Retained to meet tax liabilities	Transferred to beneficial ownership
A J Bates	28,455	11,382	17,073

Extract from the Remuneration Report (continued)

(i) Year ended 31 March 2000 (continued)

Directors' interests (continued)

Directors' contingent share awards under performance-related incentive plans[a]

	As at 1 April 1999 or, if later, at date of appointment	Awarded in year	Equivalent of dividends added in year	Became non-contingent in year	Lapsed in year	As at 31 March 2000	Restricted share awards included in remuneration for the years to 31 March 2000
E L Nicoli[b]	—	255,909	—	(21,666)[c]	—	234,243	21,666
M N Bandier	1,204,751[d]	—	—	(87,500)[c]	—	1,117,251	175,000
A J Bates[ef]	386,071	129,161	—	(17,181)[c]	—	498,051	10,763
K M Berry	2,041,330[d]	16,570	—	(181,250)[c]	—	1,876,650	362,500
Sir Colin Southgate[g]	349,629	—	285	(9,970)	—[h]	339,944	—
S P Duffy[i]	135,263	85,909	416	(3,540)	(218,048)	Nil	—

a *Contingent share awards are dependent on future performance and/or subject to forfeiture. The figures shown therefore reflect the maximum possible potential share interests.*

b *Appointed Chairman Designate 1 May 1999.*

c *These include a proportion of restricted share awards in order more accurately to match remuneration costs to the time period in which the shares are earned, even though in certain circumstances these awards could lapse or be released before the vesting date.*

d *Includes potential awards of 650,000 performance shares and 262,000 restricted shares made to Mr Bandier, 1,000,000 performance shares and 543,705 restricted shares made to Mr Berry, under the terms of their service contracts.*

e *Appointed 1 January 2000.*

f *On 24 May 2000, an award to Mr Bates vested under EMI Music's former Long-Term Incentive Plan in respect of the three-year performance period from 1994 to 1997. Of this award, the following dispositions were made:*

	Total award	Retained to meet tax liabilities	Transferred to beneficial ownership
A J Bates	6,418	2,567	3,851

g *Resigned 16 July 1999.*

h *Awards remain outstanding for Sir Colin Southgate until 24 July 2000 in respect of 339,944 shares.*

i *Resigned 31 December 1999.*

Extract from the Remuneration Report (continued)

(i) Year ended 31 March 2000 (continued)

Directors' interests (continued)

Directors' share options over EMI Ordinary Shares[a,b]

	Date granted	Exercise price	As at 1 April 1999 or date of appointment if later	Granted in year	Exercised in year	Date of exercise	Share price at exercise	Lapsed in year	As at 31 March 2000
E L Nicoli[c]	3 June 1999	440.000p	0	60,000	—	—	—	—	60,000
Total			0	60,000	—			—	60,000
M N Bandier	25 August 1995	590.315p	253,084	—	—	—	—	—	253,084
	23 August 1996	734.500p	60,000	—	—	—	—	—	60,000
	6 June 1997	575.000p	52,144	—	—	—	—	—	52,144
Total			365,228	—	—			—	365,228
A J Bates[d]	3 August 1990	347.365p	36,474	—	36,474	7 March 2000	705p	—	0
	23 August 1996	par (14p)	9,873	—	9,873	7 March 2000	705p	—	0
	23 August 1996	734.500p	67,500	—	—	—	—	—	67,500
	27 March 1997[e]	466.000p	3,700	—	—	—	—	—	3,700
	6 June 1997	575.000p	51,672	—	—	—	—	—	51,672
Total			169,219	—	46,347			—	122,872
K M Berry	22 July 1994	534.000p	200,000	—	—	—	—	—	200,000
	25 August 1995	747.000p	231,500	—	—	—	—	—	231,500
	23 August 1996[b]	par (14p)	54,146	—	—	—	—	—	54,146
	23 August 1996[b]	par (14p)	62,672	—	—	—	—	—	62,672
	23 August 1996	734.500p	430,000	—	—	—	—	—	430,000
	6 June 1997	575.000p	206,778	—	—	—	—	—	206,778
	5 June 1998	531.500p	16,000	—	—	—	—	—	16,000
Total			1,201,096	—	—			—	1,201,096
Sir Colin Southgate[f]	25 August 1995	747.000p	67,600	—	—	—	—	—	67,600
	23 August 1996[b]	par (14p)	18,300	—	—	—	—	—	18,300
	23 August 1996	734.500p	117,280	—	—	—	—	—	117,280
	27 March 1997[e]	466.000p	2,092	—	—	—	—	(2,092)	0
	6 June 1997	575.000p	128,226	—	—	—	—	—	128,226
Total			333,498	—	—			(2,092)	331,406
S P Duffy[g]	25 August 1995	747.000p	33,400	—	—	—	—	—	33,400
	23 August 1996[b]	par (14p)	9,041	—	—	—	—	—	9,041
	23 August 1996	734.500p	43,540	—	—	—	—	—	43,540
	27 March 1997[e]	466.000p	3,700	—	—	—	—	(3,700)	0
	6 June 1997	575.000p	50,464	—	—	—	—	—	50,464
	5 June 1998	510.000p	22,766	—	—	—	—	(22,766)	0
Total			162,911	—	—			(26,466)	136,445

a *The total gain made on the exercise of share options was £198,666.22 (all of which relates to Mr Bates). The closing mid-market share price on 31 March 2000 was 696p. The range of closing mid-market share prices during the year was 387p to 799.5p. Executive share options are normally exercisable during the period commencing no earlier than three years and ending no later than ten years from the date granted; the exercise of all options granted on or after 25 August 1995 is normally subject to achievement of performance targets.*

b *Executive share option rights were amended at 23 August 1996 to reflect the demerger. For non-UK residents, an appropriate adjustment was made to each option but, as the Inland Revenue would not permit such an adjustment to UK-approved options, no adjustment was made to the options of UK residents. Instead, in respect of each option, a special par value option was granted intended to achieve broadly the same effect as if the adjustment had been made and which can only be exercised with and on the same terms as the original option to which it relates.*

c *Appointed Chairman Designate 1 May 1999.*

d *Appointed 1 January 2000.*

e *ShareSave options are normally exercisable for a six-month period following completion of savings to either a three- or a five-year ShareSave contract.*

f *Resigned 16 July 1999; options remain outstanding until 23 July 2001.*

g *Resigned 31 December 1999; options remain outstanding until 31 December 2000.*

Extract from the Remuneration Report (continued)

(i) Year ended 31 March 2000 (continued)

Directors' interests (continued)

Directors' share appreciation rights[a]

	Date granted	Price at grant	Indexed price at 31 March 2000[b]	As at 1 April 1999	Exercised in year	Date of exercise	Share price at exercise	As at 31 March 2000
Sir Colin Southgate[c] ...	23 July 1993	368.655p	441p	45,554	—	—	—	45,554
	7 December 1993	389.990p	464p	235,368	—	—	—	235,368
	22 July 1994	421.995p	492p	381,398	—	—	—	381,398
Total				662,320	—			662,320
S P Duffy[d]	22 July 1994	421.995p	—	52,008	(52,008)	10 December 1999	614p	0

a *Share appreciation rights (SARs) do not constitute notifiable interests in shares, although they are noted under directors' interests to reflect their similarity to share options. SARs are normally exercisable no earlier than on the fourth, fifth and sixth anniversary of the date granted in three equal tranches, and no later than ten years from the date granted. No SARs were granted, exercised or lapsed in the year.*

b *Under the applicable scheme rules the indexed price (being the price at grant indexed by the UK Retail Prices Index) is the price for the purposes of calculating the value of any appreciation by comparison with the share price at the date of exercise of the SARs.*

c *Resigned 16 July 1999; SARs remain outstanding until 31 July 2000.*

d *Resigned 31 December 1999.*

(ii) Year ended 31 March 1999

Executive Directors' retirement benefits and contributions

	Age as at 31 March 1999 Years	Directors' contributions in year[a] £'000	Company contributions in year[a] £'000	Defined benefit plan only Accrued pension entitlement: Increase in year[b] £'000 pa	Total as at 31 March 1999[c] £'000 pa
Sir Colin Southgate..	60	24	Nil	5	425
S P Duffy..	49	4	73[d]	3	21
M N Bandier (appointed 17 April 1998)...............	57	276	477	—	—
K M Berry (appointed 17 April 1998)..................	47	—[e]	Nil	55	135
J G Fifield (resigned 17 April 1998)......................	56	6	6,301[f]	—	—

a *EMI contributions shown are to defined contribution plans only. The comparative 1998 figure was £794,000. EMI made no contribution to the UK Pension Fund in respect of the Executive Directors (due to a continuation of its suspension of contributions as a result of the Fund's strong financial position).*

b *The increase during the year, net of the effect of inflation, on the pension built up to 31 March 1998, to which each Director would be entitled from normal retirement age had he left employment at 31 March 1999 or actual date of leaving, if earlier.*

c *The total accrued pension entitlement to which each Director would be entitled from normal retirement age had he left employment at 31 March 1999 or actual date of leaving, if earlier. Sir Colin Southgate reached his normal retirement date at 24 July 1998 and opted to defer payment of his pension. The total accrued pension entitlement as at 31 March 1999 and the increase in the year includes an allowance for late payment.*

d *Including £29,394 (1998: £27,513) paid in respect of the tax charge arising from EMI's contributions on base salary in excess of the Cap.*

e *Mr Berry's contributions to the UK pension fund are currently suspended during an assignment to the US. On his return to the UK, Mr Berry will recommence contributions at a rate sufficient to recover any shortfall.*

f *As reported in last year's Annual Report, Mr Fifield received a $10.4m (£6.27m) retirement plan contribution which was due to be paid on 31 March 1999 under his service contract.*

Extract from the Remuneration Report (continued)

(ii) Year ended 31 March 1999 (continued)

Remuneration details

Annual remuneration[a]

	Base salary or fees £'000	Compensation for loss of office £'000	Benefits £'000	Incentive remuneration £'000	1999 Total in year £'000	1998 Total in year £'000
Executive Directors:						
Sir Colin Southgate	556.2	—	35.6	—	591.8	670.1
S P Duffy	297.0	—	18.4	100.0	415.4	336.9
M N Bandier (appointed 17 April 1998)	1,148.7	—	39.7	863.8	2,052.2	—
K M Berry (appointed 17 April 1998)[c]	1,723.1	—	337.1[b]	—	2,060.2	—
J G Fifield (resigned 17 April 1998)	104.1	6,385.5	238.5	—	6,728.1	2,513.9
S McAllister (resigned 28 March 1998)	—	—	—	—	—	538.5
Non-executive Directors:						
Sir Peter Walters	52.5	—	—	—	52.5	52.5
Sir Dominic Cadbury	22.5	—	—	—	22.5	2.4
Sir Graham Day (resigned 17 July 1998)	7.5	—	—	—	7.5	22.5
H Einsmann	22.5	—	—	—	22.5	22.5
H R Jenkins	22.5	—	—	—	22.5	22.5
E L Nicoli	22.5	—	—	—	22.5	22.5
K A O'Donovan	22.5	—	—	—	22.5	8.0
Total 1999	4,001.6	6,385.5	669.3	963.8	12,020.2	
Total 1998	3,312.8	—	485.3	414.2		4,212.3

a *Excludes retirement contributions (see table on page 127) and the value of share awards ceasing to be contingent, as reported in the table shown below.*

b *Includes value of housing provided by the EMI Group in the US on a rent-free basis and tax equalisation payments relating to service in California.*

c *Highest-paid Director.*

Remuneration from prior year share awards ceasing to be contingent

	1999 Awards No. of shares	1999 Total value[a] £'000	1998 Awards No. of shares	1998 Total value £'000
Sir Colin Southgate	13,502	69	81,888[b]	454
S P Duffy	4,264	22	30,403[b]	169
M N Bandier (appointed 17 April 1998)	120,024[c]	560	—	—
K M Berry (appointed 17 April 1998)	205,662[c]	910	—	—
J G Fifield (resigned 17 April 1998)	197,659	1,018	2,112,984[b]	10,559
Total	541,111	2,579	2,225,275	11,182

a *The value is based on the share price on the date awards were granted.*

b *Includes 43,652 shares for Sir Colin Southgate, 13,783 shares for Mr Duffy and 151,194 shares for Mr Fifield, which were accrued as of 31 March 1998, but not awarded until June 1998 and were, therefore, not included in the 1998 remuneration figures. The Directors believe that restating these numbers and following this approach in the future better links remuneration to the period for which it was earned.*

c *These include one-quarter of restricted share awards in order more accurately to match remuneration costs to the time period in which the shares are earned, even though in certain circumstances these awards could lapse or be released before the vesting date.*

Extract from the Remuneration Report (continued)

(ii) Year ended 31 March 1999 (continued)

Directors' interests

Directors' interests (all beneficial) in EMI Ordinary Shares[abc]

	As at 31 March 1999		As at 1 April 1998, or at date of appointment, if later	
	Total shares held	Of which other[d]	Total shares held	Of which other[d]
Sir Colin Southgate[e]	869,734	274,415	784,096	189,245
S P Duffy[e]	143,275	100,207	114,759	71,915
M N Bandier (appointed 17 April 1998)[e]	186,697	141,812[f]	264,009	264,009
K M Berry (appointed 17 April 1998)[e]	344,772	268,949[f]	388,324	383,433
Sir Peter Walters	5,400	—	5,400	—
Sir Dominic Cadbury	5,000	—	Nil	—
H Einsmann	1,800	—	1,800	—
H R Jenkins	1,101	—	1,101	—
E L Nicoli	3,686	—	2,820	—
K A O'Donovan	Nil	—	Nil	—

a *EMI's Register of Directors' Interests is available for inspection in accordance with the provisions of the Companies Act 1985.*

b *No Director had any interest in either shares or debentures of any subsidiary of EMI.*

c *In this table and those following, Mr Berry's share interests and awards include share interests and awards for Mrs N A Berry, his wife, who is also an employee of the EMI Group.*

d *"Other" refers to non-contingent share awards under performance-related incentive plans (i.e. they have ceased to be dependent on future performance and/or subject to forfeiture). The Executive Directors also have contingent share interests under performance-related incentive plans, as noted in the table shown on page 130.*

e *On 9 April 1999, Sir Colin Southgate, Mr Duffy Mr Bandier and Mr Berry received additional shares equivalent to dividends, in respect of awards under previous incentive plans, totalling 1,827, 661, 1,242 and 932 shares respectively.*

f *On 26 May 1999, awards to Mr Bandier and Mr Berry vested under EMI Music's former Long-Term Incentive Plan in respect of the three year performance period from 1993 to 1996. Of these awards, the following dispositions were made:*

	Total award	Sold to meet tax liabilities	Transferred to beneficial ownership
M N Bandier	143,054	53,288	89,766
K M Berry	107,369	41,305	66,064

Extract from the Remuneration Report (continued)

(ii) Year ended 31 March 1999 (continued)

Directors' interests (continued)

Directors' contingent share awards under performance-related incentive plans[ab]

	As at 1 April 1998 or, if later, at date of appointment	Awarded in year	Equivalent of dividends added in year	Became non-contingent in year	Lapsed in year	As at 31 March 1999
Sir Colin Southgate[c]	144,689[d]	217,298[e]	1,144	(13,502)	—	349,629
S P Duffy[c]	52,702[d]	86,419[e]	406	(4,264)	—	135,263
M N Bandier	324,775	1,000,000[f]	—	(120,024)[g]	—	1,204,751[h]
K M Berry	508,091	1,738,901[f]	—	(205,662)[g]	—	2,041,330[h]
J G Fifield	859,883[d]	—	—	(197,659)	(662,224)	Nil

a *Contingent share awards are dependent on future performance and/or subject to forfeiture. The figures shown therefore reflect the maximum possible potential share interests.*

b *Following the Preliminary Announcement, Mr Nicoli was awarded a restricted share award of 65,000 shares.*

c *On 9 April 1999, Sir Colin Southgate and Mr Duffy received additional shares equivalent to dividends, in respect of awards under previous incentive plans, totalling 285 and 101 shares respectively.*

d *The figures for Sir Colin Southgate and Mr Duffy differ from the equivalent figures in the 1998 Annual Report due to the restatement detailed in footnote b of the table setting out* Remuneration from prior year share awards ceasing to be contingent *on page 128. However, as the equivalent figure for Mr Fifield in the 1998 Annual Report had already been adjusted on the same basis as the figures now restated for Sir Colin Southgate and Mr Duffy, Mr Fifield's figure as at 1 April 1998 remains the same as in the 1998 Annual Report.*

e *These maximum opportunities are in respect of the three year performance period beginning 1 April 1998. The number of shares actually earned will normally be determined as of 31 March 2001, and any shares then released will be included in that year's Annual Report as remuneration ceasing to be contingent.*

f *Includes potential awards of 650,000 Performance Shares and 350,000 Restricted Shares made to Mr Bandier, and 1,000,000 Performance Shares and 725,000 Restricted Shares made to Mr Berry, under the terms of their service contracts.*

g *These include one quarter of restricted share awards in order more accurately to match remuneration costs to the time period in which the shares are earned, even though in certain circumstances these awards could lapse or be released before the vesting date.*

h *On 26 May 1999, awards to Mr Bandier and Mr Berry vested under EMI Music's former Long-Term Incentive Plan in respect of the three year performance period from 1993 to 1996. Of these awards, the following dispositions were made:*

	Total award	Sold to meet tax liabilities	Transferred to beneficial ownership
M N Bandier	32,524	12,115	20,409
K M Berry	24,412	9,391	15,021

Extract from the Remuneration Report (continued)

(ii) Year ended 31 March 1999 (continued)

Directors' interests (continued)

Directors' share options over EMI Ordinary Shares[ab]

	Date granted	Exercise price	As at 1 April 1998	Granted in year	Exercised in year	Date of exercise	Share price at exercise	Lapsed in year	As at 31 March 1999
Sir Colin Southgate	25 August 1995	747.000p	67,600	—	—	—	—	—	67,600
	23 August 1996[c]	par (14p)	18,300	—	—	—	—	—	18,300
	23 August 1996	734.500p	117,280	—	—	—	—	—	117,280
	27 March 1997[d]	466.000p	2,092	—	—	—	—	—	2,092
	6 June 1997	575.000p	128,226	—	—	—	—	—	128,226
Total			333,498	—	—			—	333,498
S P Duffy	25 August 1995	747.000p	33,400	—	—	—	—	—	33,400
	23 August 1996[c]	par (14p)	9,041	—	—	—	—	—	9,041
	23 August 1996	734.500p	43,540	—	—	—	—	—	43,540
	27 March 1997[d]	466.000p	3,700	—	—	—	—	—	3,700
	6 June 1997	575.000p	50,464	—	—	—	—	—	50,464
	5 June 1998	510.000p	—	22,766	—	—	—	—	22,766
Total			140,145	22,766	—			—	162,911
M N Bandier	25 August 1995	590.315p	253,084	—	—	—	—	—	253,084
	23 August 1996	734.500p	60,000	—	—	—	—	—	60,000
	6 June 1997	575.000p	52,144	—	—	—	—	—	52,144
Total			365,228	—	—			—	365,228
K M Berry	22 July 1994	534.000p	200,000	—	—	—	—	—	200,000
	25 August 1995	747.000p	231,500	—	—	—	—	—	231,500
	23 August 1996	734.500p	430,000	—	—	—	—	—	430,000
	23 August 1996[c]	par (14p)	54,146	—	—	—	—	—	54,146
	23 August 1996[c]	par (14p)	62,672	—	—	—	—	—	62,672
	6 June 1997	575.000p	206,778	—	—	—	—	—	206,778
	5 June 1998	531.500p	—	16,000	—	—	—	—	16,000
Total			1,185,096	16,000	—			—	1,201,096
J G Fifield	22 July 1994	423.970p	253,084	—	253,084	8 June 1998	520.000p	—	Nil
	25 August 1995	590.315p	253,084	—	—	—	—	253,084	Nil
	23 August 1996	734.500p	250,000	—	—	—	—	250,000	Nil
	6 June 1997	575.000p	211,836	—	—	—	—	211,836	Nil
Total			968,004	—	253,084			714,920	Nil

a *The total gain made on the exercise of share options was £248,036.57 (all of which related to Mr Fifield). The closing mid-market share price on 31 March 1999 was 442.25p. The range of closing mid-market share prices during the year was 312p to 609p. Executive share options are normally exercisable during the period commencing no earlier than three years and ending no later than ten years from the date granted: the exercise of all options granted on or after 25 August 1995 is normally subject to achievement of performance targets.*

b *Following the Preliminary Announcement. Mr Nicoli was granted an option over 60,000 Ordinary Shares. The exercise price of the option was 440p per share, determined at the date of grant.*

c *Executive share option rights were amended at 23 August 1996 to reflect the demerger. For non-UK residents, an appropriate adjustment was made to each option but, as the Inland Revenue would not permit such an adjustment to UK approved options, no adjustment was made to the options of UK residents. Instead, in respect of each option, a special par value option was granted intended to achieve broadly the same effect as if the adjustment had been made and which can only be exercised with and on the same terms as the original option to which it relates.*

d *ShareSave options are normally exercisable for a six month period following completion of savings to either a three or a five year ShareSave contract.*

Extract from the Remuneration Report (continued)

(ii) Year ended 31 March 1999 (continued)

Directors' interests (continued)

Directors' share appreciation rights[a]

	Date granted	Price at grant	Indexed price at 31 March 1999[b]	As at 1 April 1998	As at 31 March 1999
Sir Colin Southgate	23 July 1993	368.655p	430p	45,554	45,554
	17 December 1993	389.990p	452p	235,368	235,368
	22 July 1994	421.995p	479p	381,398	381,398
Total				662,320	662,320
S P Duffy	22 July 1994	421.995p	479p	52,008	52,008

a *Share appreciation rights (SARs) do not constitute notifiable interests in shares, although they are noted under Directors' interests to reflect their similarity to share options. SARs are normally exercisable no earlier than on the fourth, fifth and sixth anniversary of the date granted in three equal tranches, and no later than ten years from the date granted. No SARs were granted, exercised or lapsed in the year.*

b *Under the applicable scheme rules the indexed price (being the price at grant indexed by the UK Retail Prices Index) is the price for the purposes of calculating the value of any appreciation by comparison with the share price at the date of exercise of the SARs.*

Part 6 — Unaudited Additional Financial Information on EMI Music

EMI Music does not constitute a separate legal entity and no audited accounts for EMI Music as a whole were prepared for the three years ended 31 March 2000. The information set out in pages 134 to 135 has been extracted from the consolidation package of EMI, upon which the audited accounts of EMI for the three years ended 31 March 2000 have been based, after adjusting for all excluded assets and liabilities, as detailed in Part 5 on page 75, which are not being transferred to Warner EMI Music. These EMI accounts received unqualified audit reports from Ernst & Young, EMI's auditors. The adjustments for excluded assets and liabilities have been extracted from the consolidation package of EMI and underlying records.

The financial information has been prepared under the historical cost convention and in accordance with EMI accounting policies as summarised in Part 5 of this document. The accounting policies to be applied in the future by Warner EMI Music will be reviewed as part of integrating the businesses. One objective of any policy changes will be to reduce the differences between the UK GAAP and US GAAP reporting to EMI and to Time Warner, respectively. EMI will adopt the revised accounting policies of Warner EMI Music when any such revisions are implemented. The financial information does not represent statutory accounts as defined by section 240 of the Act.

A. ADDITIONAL FINANCIAL INFORMATION ON EMI MUSIC

BALANCE SHEET

	at 31 March 2000 £m
Fixed assets	
Music copyrights	521.0
Goodwill	26.7
Tangible fixed assets	320.6
Investments: Associates	17.5
Other fixed asset investments	6.5
	892.3
Stocks	39.9
Debtors – excluding interest and tax	831.1
Other creditors – excluding interest, tax and dividends	(965.4)
Other provisions	(105.7)
Corporate and deferred taxation	(88.1)
Interest	(5.8)
Borrowings	(921.2)
Net liabilities	(322.9)
Equity shareholders' funds – goodwill	(1,279.2)
Equity shareholders' funds – other	820.1
Equity shareholders' funds	(459.1)
Minority interests (equity)	136.2
	(322.9)

The information above represents EMI's music businesses to be transferred to Warner EMI Music i.e. excluding all EMI Retained Assets and EMI Retained Liabilities.

B. ADDITIONAL FINANCIAL INFORMATION ON EMI MUSIC

SUMMARY PROFIT AND LOSS STATEMENT

	Year ended 31 March		
	2000 £m	1999 £m	1998 £m
Turnover:			
Gross	2,386.5	2,373.5	2,413.5
Elimination of sales to HMV	n/a	n/a	(60.8)
	2,386.5	2,373.5	2,352.7
Cost of sales	(1,516.3)	(1,528.4)	(1,458.9)
Gross profit	870.2	845.1	893.8
Distribution costs	(124.7)	(123.1)	(118.9)
Administration expenses	(521.9)	(481.3)	(474.6)
Other operating income, net	49.0	33.5	40.3
Operating profit before amortisation and exceptional items	272.6	274.2	340.6
Amortisation of music copyrights	(33.5)	(26.9)	(27.0)
Amortisation of goodwill	(1.1)	(0.4)	—
Operating exceptionals	(4.0)	—	(135.9)
Group operating profit	234.0	246.9	177.7
Share of operating profits (losses) in associates	0.8	(0.7)	0.9
Total operating profit	234.8	246.2	178.6
Non-operating exceptionals	(8.4)	—	(12.8)
Profit before finance charges	226.4	246.2	165.8
Finance charges	(50.3)	(44.4)	n/a
Profit before tax	176.1	201.8	n/a
Tax	(72.4)	(67.2)	n/a
Profit after tax	103.7	134.6	n/a
Minority interests	(17.9)	(9.2)	n/a
Profit for appropriation	85.8	125.4	n/a

The information above represents EMI's music businesses to be transferred to Warner EMI Music i.e. excluding all amounts relating to EMI Retained Assets and EMI Retained Liabilities.

During the year ended 31 March 1998, the results of the businesses and assets which formed HMV were included within the results for the EMI Group. In this period, the funding of HMV's operations included share capital and loans between HMV entities and the EMI Group companies on both interest free and interest bearing bases, as well as external borrowings. Consequently, excluding the interest income and expense actually earned by, or charged to, HMV entities in this period does not give rise to an interest charge which is representative of that which would have arisen in the EMI Group on a stand-alone basis. HMV entities were also part of the tax arrangements of the EMI Group in this period and due to group indemnities and other tax arrangements which existed within the Group, no significant charge to taxation arose within HMV.

Due to the above, it is not possible to calculate accurate or meaningful finance charges and taxation charge for EMI Music for the year ended 31 March 1998, and, therefore, no figures have been disclosed.

Part 7 — Pro forma Financial Information for EMI and Warner EMI Music

ERNST & YOUNG

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The Directors
EMI Group plc
4 Tenterden Street
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The Directors
Time Warner Inc.
75 Rockefeller Plaza
New York, NY 10019

2 June 2000

The Proposed Directors and Officers
Warner EMI Music
c/o Time Warner Inc.
75 Rockefeller Plaza
New York, NY 10019

UBS Warburg, a financial services group of UBS AG
1 Finsbury Avenue
London EC2M 2PP

Dear Sirs

We report on the pro forma financial information set out in Part 7 of the combined Circular and Listing Particulars of EMI Group plc dated 2 June 2000 which has been prepared, for illustrative purposes only, to provide information about how the proposed combination of the recorded music and music publishing businesses of EMI Group plc and Time Warner Inc., respectively, might have affected the financial information presented.

Responsibility

It is the responsibility solely of the directors of EMI Group plc and the proposed Warner EMI Music Directors and Officers to prepare the pro forma financial information in accordance with paragraph 12.29 of the Listing Rules.

It is our responsibility to form an opinion, as required by the Listing Rules of the UK Listing Authority, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and the Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of EMI Group plc and the proposed Warner EMI Music Directors and Officers.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of EMI Group plc; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 12.29 of the Listing Rules of the UK Listing Authority.

Yours faithfully

Ernst & Young

A. PRO FORMA BALANCE SHEET OF EMI

The following is an unaudited statement of the pro forma consolidated balance sheet of EMI which has been prepared on the basis set out in the notes below. The pro forma statement has been prepared for illustrative purposes only, to provide financial information about EMI after the Combination, as if it had occurred on 31 March 2000, and because of its nature, may not give a true picture of the financial position of EMI.

	EMI Group[1] £m	Adjustment for EMI Music[2] £m	Other adjustments[3] £m	Pro forma EMI[4] £m
Fixed assets				
Music copyrights	521.0	(521.0)	—	—
Goodwill	26.7	(26.7)	—	—
Tangible fixed assets	337.2	(320.6)	—	16.6
Investments: Associates (Warner EMI Music)	—	—	320.5[b]	320.5
Investments: Associates (other)	18.0	(17.5)	—	0.5
Other fixed asset investments	20.0	(6.5)	—	13.5
Investments: own shares	18.4	—	(18.4)[a]	—
Investments: joint venture (HMV Media)	(169.0)	—	—	(169.0)
	772.3	(892.3)	302.1	182.1
Stocks	39.9	(39.9)	—	—
Debtors – excluding interest and tax	843.0	(831.1)	(1.7)[c]	10.2
Other creditors – excluding interest, tax and dividends	(976.2)	965.4	(69.9)[d]	(80.7)
Other provisions	(130.2)	105.7	—	(24.5)
Corporate and deferred taxation	(120.5)	88.1	—	(32.4)
Interest	(5.8)	5.8	—	—
Dividends payable	(92.7)	—	(790.0)[e]	(882.7)
Net cash (borrowings)	(921.2)	921.2	987.6[f]	987.6
Net assets (liabilities)	(591.4)	322.9	428.1	159.6
Goodwill written off to reserves	(1,454.5)	1,279.2	—	(175.3)
Other share capital and reserves	726.9	(820.1)	428.1	334.9
Equity shareholders' funds	(727.6)	459.1	428.1	159.6
Minority interests (equity)	136.2	(136.2)	—	—
	(591.4)	322.9	428.1	159.6

Note 1: As extracted, without material adjustment, from the audited balance sheet of the EMI Group as at 31 March 2000, as set out in Part 5 of this document.

Note 2: Removal of the balance sheet of EMI Music as at 31 March 2000, as extracted, from the Additional Financial Information, as set out in Section A of Part 6 of this document.

Note 3: Other adjustments, including one to account for EMI's investment in Warner EMI Music, have been made as follows:

- *a – Adjustment to reflect release of share awards which vest on Closing and are capitalised as part of the costs of the transaction.*
- *b – Adjustment to reflect EMI's investment in Warner EMI Music as calculated in Section E of this Part 7. The transaction is in substance a like-for-like exchange of non-monetary assets and therefore the investment value represents the book value of the assets contributed (net of minority interests of £136.2 million) of £230.5 million (see columns 'EMI Music' and 'EMI adjustments' of the pro forma balance sheet of Warner EMI Music in Section C of this Part 7) plus £90.0 million of capitalised transaction costs.*
- *c – Adjustment to reflect the transfer of transaction costs already paid at 31 March 2000 (£1.7 million) from prepayments to be capitalised as part of the investment value.*
- *d – Adjustments to reflect the accrual for transaction costs unpaid at 31 March 2000 (£69.9 million).*
- *e – Special Cash Payment following Closing.*
- *f – Adjustments to reflect cash retained by EMI on Closing to cover the March 2000 final dividend payment £92.7 million, unpaid tax creditors £20 million, unpaid transaction costs £69.9 million, funding for future operations £15 million; £392 million relating to the Special Cash Payment indirectly funded by Time Warner via additional debt contributed to Warner EMI Music by EMI; and £398 million also to be used to fund the Special Cash Payment relating to the issue to Time Warner of Convertible Deferred Shares.*

Note 4: No account has been taken of the following:

- *changes in the financial position or results of either the EMI Group or Warner Music Group since 31 March 2000 and 31 December 1999 respectively;*
- *no adjustments have been made to reflect reorganisation costs, synergy benefits or fair value adjustments;*
- *accounting policies to be applied in the future by Warner EMI Music and to be adopted by EMI (see Part 6 of this document on page 133).*

B. PRO FORMA PROFIT AND LOSS STATEMENT OF EMI

The following is an unaudited statement of the pro forma consolidated profit and loss of EMI which has been prepared on the basis set out in the notes below. The pro forma statement has been prepared for illustrative purposes only, to provide financial information about EMI after the Combination, as if it had occurred on 1 April 1999, and because of its nature, may not give a true picture of the financial position of EMI.

	EMI Group[2] £m	Adjustment for EMI Music[3] £m	Other adjustments[4] £m	Adjustment for share of Warner EMI Music[5] £m	Pro forma EMI[6] £m
Turnover	2,386.5	(2,386.5)	—	—	—
Cost of sales	(1,516.3)	1,516.3	—	—	—
Gross profit	870.2	(870.2)	—	—	—
Distribution costs	(124.7)	124.7	—	—	—
Administration expenses	(526.9)	521.9	—	—	(5.0)
Other operating income, net	72.0	(49.0)	—	—	23.0
Operating profit before amortisation and exceptional items	290.6	(272.6)	—	—	18.0
Amortisation of music copyrights	(33.5)	33.5	—	—	—
Amortisation of goodwill	(1.1)	1.1	—	—	—
Operating exceptionals	(4.0)	4.0	—	—	—
Group operating profit	252.0	(234.0)	—	—	18.0
Share of operating profits (losses) in joint ventures	27.7	—	—	—	27.7
Share of operating profits (losses) in associates	0.8	(0.8)	—	164.7	164.7
Total operating profit	280.5	(234.8)	—	164.7	210.4
Non-operating exceptionals	42.5	8.4	—	(3.7)	47.2
Profit before finance charges	323.0	(226.4)	—	161.0	257.6
Finance charges (inc. associate and joint venture)	(73.7)	50.3	0.8	(79.6)	(102.2)
Profit before tax	249.3	(176.1)	0.8	81.4	155.4
Tax	(73.0)	72.4	(0.2)	(62.9)	(63.7)
Profit after tax	176.3	(103.7)	0.6	18.5	91.7
Minority interests (inc. associate and joint venture)	(17.9)	17.9	—	(9.5)	(9.5)
Profit for appropriation	158.4	(85.8)	0.6	9.0	82.2

Note 1: Comparison of EMI Group to pro forma EMI:

Operating profit before amortisation and exceptional items	290.6	(272.6)	—	258.3	276.3

EMI's share of Warner EMI Music's operating profit is brought in to the profit and loss statement of EMI as a net share of operating profit in associates, which is after amortisation and exceptional items. As shown in Section E of this Part 7, EMI's share of Warner EMI Music's operating profit before amortisation and exceptionals would be £258.3 million, giving a total of £276.3 million before reflecting EMI's share of synergy benefits. Adding EMI's share of expected annual synergy benefits to be achieved at the end of year three would increase operating profits by £125 million (see the Chairman's letter on page 5).

Note 1: Comparison of EMI Group to pro forma EMI (continued)

	EMI Group[2] £m	Adjustment for EMI Music[3] £m	Other adjustments[4] £m	Adjustment for share of Warner EMI Music[5] £m	Pro forma EMI[6] £m
Profit for appropriation	158.4	(85.8)	0.6	9.0	82.2
Amortisation charge on goodwill capitalised as part of the transaction[a]	—				50.6
	158.4				132.8

a) Add back the incremental goodwill amortisation charge suffered by pro forma EMI calculated as EMI's share of the goodwill amortisation in Warner EMI Music of £51.7 million (see Section E of this Part 7) less the existing goodwill amortisation charge in the EMI Group of £1.1 million.

As explained above, these figures do not reflect EMI's share of expected synergy benefits. Adding expected annual synergy benefits to be achieved at the end of year three, after tax at a rate of 39.5 per cent., would increase the profit for appropriation by £75.6 million.

Note 2: As extracted, without material adjustment, from the audited profit and loss of the EMI Group for the year ended 31 March 2000, as set out in Part 5 of this document.

Note 3: Removal of the profit and loss of EMI Music for the year ended 31 March 2000, as extracted from the Additional Financial Information, as set out in Section B of Part 6 of this document.

Note 4: Other adjustments have been made to reflect the finance income (at 5.0 per cent.) on the £15 million borrowings adjustment in the balance sheet for cash to be retained by EMI to fund future operations and the related tax charge (at 30.0 per cent.). The remainder of the borrowings adjustments are assumed to have been used to pay liabilities almost immediately and therefore have no associated finance income.

Note 5: EMI's share of profits in Warner EMI Music as calculated in Section E of this Part 7.

Note 6: No account has been taken of the following:

- *changes in the financial position or results of either the EMI Group or Warner Music Group since 31 March 2000 and 31 December 1999 respectively;*
- *no adjustments have been made to reflect reorganisation costs, synergy benefits or fair value adjustments;*
- *accounting policies to be applied in the future by Warner EMI Music and to be adopted by EMI (see Part 6 of this document on page 133).*

C. PRO FORMA BALANCE SHEET OF WARNER EMI MUSIC

The following is an unaudited statement of the combined balance sheet of Warner EMI Music which has been prepared on the basis set out in the notes below. The pro forma statement has been prepared for illustrative purposes only, to provide financial information about the Combination, as if it had occurred on 31 March 2000, and because of its nature, may not give a true picture of the financial position of Warner EMI Music.

	EMI Music[1] £m	EMI adjustments[2] £m	Adjustment for Warner Music Group[3] £m	Warner adjustments[4] £m	Pro forma adjustments[5] £m	Pro forma Warner EMI Music[6] £m
Fixed assets						
Music copyrights	521.0	—	116.0	—	—	637.0
Goodwill	26.7	1,279.2[a]	195.0	327.0[a]	10,155.3	11,983.2
Tangible fixed assets	320.6	—	277.0	—	—	597.6
Investments: Joint ventures	—	—	66.0	—	—	66.0
Investments: Associates	17.5	—	—	—	—	17.5
Other fixed asset investments	6.5	—	5.0	—	—	11.5
	892.3	1,279.2	659.0	327.0	10,155.3	13,312.8
Stocks	39.9	—	96.0	—	—	135.9
Debtors – excluding interest and tax	831.1	—	1,545.0	—	—	2,376.1
Other creditors – excluding interest, tax and dividends	(965.4)	—	(1,578.0)	—	—	(2,543.4)
Other provisions	(105.7)	—	(34.0)	—	—	(139.7)
Corporate and deferred taxation.	(88.1)	—	(44.0)	—	—	(132.1)
Interest	(5.8)	—	—	—	—	(5.8)
Dividends payable	—	—	—	—	—	—
Net cash (borrowings)	(921.2)	(589.6)[b]	87.0	(907.9)[b]	—	(2,331.7)
Net assets (liabilities)	(322.9)	689.6	731.0	(580.9)	10,155.3	10,672.1
Goodwill written off to reserves.	(1,279.2)	1,279.2	(327.0)	327.0	—	—
Other share capital and reserves.	820.1	(589.6)	1,056.0	(907.9)	10,155.3	10,533.9
Equity shareholders' funds	(459.1)	689.6	729.0	(580.9)	10,155.3	10,533.9
Minority interests (equity)	136.2	—	2.0	—	—	138.2
	(322.9)	689.6	731.0	(580.9)	10,155.3	10,672.1

Note 1: *Inclusion of the balance sheet of EMI Music as at 31 March 2000, as extracted from the Additional Financial Information, as set out in Section A of Part 6 of this document.*

Note 2: *Other adjustments to EMI Music have been made as follows:*

a – *Goodwill previously written off to reserves written back on disposal to reflect the cost of assets disposed.*

b – *Adjustments to reflect incremental borrowings due to cash to be retained by EMI on Closing – see details in Section A of this Part 7 on the pro forma EMI balance sheet (total borrowings adjustment less £398 million arising on subscription by Time Warner for the Convertible Deferred Shares).*

Note 3: *Inclusion of the balance sheet of Warner Music Group as at 31 December 1999, as extracted, without material adjustment, from the Accountants' Report, as set out in Part 4 of this document.*

Note 4: *Other adjustments to Warner Music Group have been made as follows:*

a – *Goodwill previously written off to reserves written back on disposal to reflect the cost of assets disposed.*

b – *Adjustments to reflect debt equalisation adjustments to borrowings contributed on Closing. Under the terms of the Combination, Time Warner is entitled to contribute the same debt as EMI as of 30 September 1999 (£928.9 million), subject to certain adjustments.*

Note 5: *Pro forma adjustments have been made to include goodwill created in the Combination on Closing – goodwill has been calculated using the EMI closing share price on 24 January 2000 of £7.31 (as adjusted for EMI Retained Assets and EMI Retained Liabilities, and the existing net borrowings) to estimate the enterprise value of Warner EMI Music (£12,865.6 million). This share price will not necessarily reflect that at Closing and has been used only to give a broad indication of the magnitude of the goodwill created in the Combination. This enterprise value less pro forma net borrowings gives an equity value of £10,533.9 million. The goodwill adjustment is the equity value less the book value of the net assets (after minority interests of £138.2 million) of £378.6 million.*

Note 6: *No account has been taken of the following:*

- *changes in the financial position or results of either the EMI Group or Warner Music Group since 31 March 2000 and 31 December 1999 respectively;*
- *no adjustments have been made to reflect reorganisation costs, synergy benefits or fair value adjustments for assets other than goodwill.*
- *accounting policies to be applied in the future by Warner EMI Music (see Part 6 of this document on page 133).*

D. PRO FORMA PROFIT AND LOSS STATEMENT OF WARNER EMI MUSIC

The following is an unaudited statement of the combined profit and loss of Warner EMI Music which has been prepared on the basis set out in the notes below. The pro forma statement has been prepared for illustrative purposes only, to provide financial information about the Combination, as if it had occurred on 1 April 1999, and because of its nature, may not give a true picture of the financial position of Warner EMI Music.

	EMI Music[1] £m	EMI adjustments[2] £m	Adjustment for Warner Music Group[3] £m	Warner adjustments[4] £m	Pro forma adjustments[5] £m	Pro forma Warner EMI Music[6] £m
Turnover	2,386.5	—	2,474.0	—	—	4,860.5
Cost of sales	(1,516.3)	—	(1,491.0)	—	—	(3,007.3)
Gross profit	870.2	—	983.0	—	—	1,853.2
Distribution costs	(124.7)	—	(148.0)	—	—	(272.7)
Administration expenses	(521.9)	—	(621.0)	—	—	(1,142.9)
Other operating income, net	49.0	—	30.0	—	—	79.0
Operating profit before amortisation and exceptional items	272.6	—	244.0	—	—	516.6
Amortisation of music copyrights	(33.5)	—	(21.0)	—	—	(54.5)
Amortisation of goodwill	(1.1)	—	(6.0)	—	(588.1)[a]	(595.2)
Operating exceptionals	(4.0)	—	(23.0)	—	—	(27.0)
Group operating profit	234.0	—	194.0	—	(588.1)	(160.1)
Share of operating profits (losses) in joint ventures	—	—	(10.0)	—	—	(10.0)
Share of operating profits (losses) in associates	0.8	—	—	—	—	0.8
Total operating profit	234.8	—	184.0	—	(588.1)	(169.3)
Non-operating exceptionals	(8.4)	—	7.0	—	—	(1.4)
Profit before finance charges	226.4	—	191.0	—	(588.1)	(170.7)
Finance charges	(50.3)	(41.3)	(19.0)	(63.6)	11.0[b]	(163.2)
Profit before tax	176.1	(41.3)	172.0	(63.6)	(577.1)	(333.9)
Tax	(72.4)	16.3	(72.0)	25.1	(23.9)[c]	(126.9)
Profit after tax	103.7	(25.0)	100.0	(38.5)	(601.0)	(460.8)
Minority interests	(17.9)	—	(1.0)	—	—	(18.9)
Profit for appropriation	85.8	(25.0)	99.0	(38.5)	(601.0)	(479.7)
Memo: EBITDA[7]	330.0	—	290.0	—	—	620.0

Note 1: Inclusion of the profit and loss of EMI Music for the year ended 31 March 2000, as extracted from the Additional Financial Information, as set out in Section B of Part 6 of this document.

Note 2: Other adjustments to EMI Music have been made to reflect the finance charges relating to the borrowings adjustments in the balance sheet at a pro forma rate of 7.0 per cent., with a related tax credit at a pro forma rate of 39.5 per cent. (see Note 5).

Note 3: Inclusion of the profit and loss of Warner Music Group for the year ended 31 December 1999, as extracted, without material adjustment, from the Accountants' Report, as set out in Part 4 of this document.

Note 4: Other adjustments to Warner Music Group have been made to reflect the finance charges relating to the borrowings adjustments in the balance sheet at the pro forma rate of 7.0 per cent., with a related tax credit at a pro forma rate of 39.5 per cent. (see Note 5).

Note 5: Pro forma adjustments have been made as follows:

- *a – Adjustment for amortisation of goodwill created by the Combination on Closing based on a 20 year life.*
- *b – Adjustments to reflect a pro forma finance charge – calculated as if the debt at the balance sheet date existed for the entire year and incurred an interest charge at the expected US interest rate of 7.0 per cent.*
- *c – Adjustments to reflect a pro forma tax charge – the tax charge is based on the territorial split of profits currently arising in the business contributed to the Combination and the statutory tax rate relevant for each territory, after reflecting the tax characteristics that will be contributed by both businesses. A tax rate of 39.5 per cent. is applied to profit before tax, exceptionals and amortisation.*

Note 6: No account has been taken of the following:

- *changes in the financial position or results of either the EMI Group or Warner Music Group since 31 March 2000 and 31 December 1999 respectively;*
- *no adjustments have been made to reflect reorganisation costs, synergy benefits or fair value adjustments for assets other than goodwill.*
- *accounting policies to be applied in the future by Warner EMI Music (see Part 6 of this document on page 133).*

Note 7: Represents Group operating profit before exceptional items, depreciation and amortisation.

E. EMI PRO FORMA SHARE OF WARNER EMI MUSIC

The following is an unaudited calculation of EMI's share of Warner EMI Music which has been prepared on the basis set out in the notes below. The pro forma calculation has been prepared for illustrative purposes only, to indicate the type of adjustments necessary in order to calculate EMI's share of Warner EMI Music and because of its nature, may not give a true picture of EMI's share of Warner EMI Music.

The transaction is in substance a like-for-like exchange of non-monetary assets, which does not give rise to realised profits. The investment will be held at cost in EMI which is represented by the book value of the assets transferred, including goodwill previously written off to reserves, plus transaction costs.

	Warner EMI Music[1] £m	Adjustment for Columbia House[2] £m	sub-total Warner EMI Music after adjustment £m	EMI's 50% share[4] £m	Adjustments[3] £m	EMI's 50% share as reported[4] £m
Operating profit before amortisation and exceptional items	516.6	—	516.6	258.3	—	258.3
Amortisation of copyrights	(54.5)	—	(54.5)	(27.3)	—	(27.3)
Amortisation of goodwill	(595.2)	—	(595.2)	(297.6)	245.9[a]	(51.7)
Operating exceptionals	(27.0)	—	(27.0)	(13.5)	—	(13.5)
Group operating profit	(160.1)	—	(160.1)	(80.1)	245.9	165.8
Share of operating profits (losses) in joint ventures	(10.0)	7.0	(3.0)	(1.5)	—	(1.5)
Share of operating profits (losses) in associates	0.8	—	0.8	0.4	—	0.4
Total operating profit	(169.3)	7.0	(162.3)	(81.2)	245.9	164.7
Non-operating exceptionals	(1.4)	(6.0)	(7.4)	(3.7)	—	(3.7)
Profit before finance charges	(170.7)	1.0	(169.7)	(84.9)	245.9	161.0
Finance charges	(163.2)	4.0	(159.2)	(79.6)	—	(79.6)
Profit before tax	(333.9)	5.0	(328.9)	(164.5)	245.9	81.4
Tax	(126.9)	1.0	(125.9)	(62.9)	—	(62.9)
Profit after tax	(460.8)	6.0	(454.8)	(227.4)	245.9	18.5
Minority interests	(18.9)	—	(18.9)	(9.5)	—	(9.5)
Profit for appropriation	(479.7)	6.0	(473.7)	(236.9)	245.9	9.0
Net assets after minority interests	10,533.9	(56.0)	10,477.9	5,239.0	(4,918.5)[b]	
Investment in Warner EMI Music						320.5

Note 1: As extracted from the pro forma balance sheet and profit and loss statement of Warner EMI Music as set out in Sections C and D of this Part 7.

Note 2: Under the terms of the Combination Agreement, substantially all of the profits and losses arising from the investment in Columbia House will be allocated to Time Warner. See Note 11 in Part 4 of this document on page 54.

Note 3: Adjustments have been made as follows:

a – Adjustments to exclude amortisation on the goodwill element in the Warner EMI Music balance sheet which is not recognised by EMI.

b – Adjustment to exclude the goodwill recognised in the Warner EMI Music balance sheet which is not recognised by EMI – calculated as the increase in the value of EMI Music assets above costs plus the unrealised profit element of the transaction in EMI.

Note 4: EMI's share of 50 per cent. in Warner EMI Music.

Note 5: No account has been taken of fair value adjustments for assets other than goodwill.

Part 8 — Further Details of the Proposed Shareholder and Partnership Arrangements

A. SUMMARY OF THE TERMS OF THE PROPOSED SHAREHOLDER AND PARTNERSHIP AGREEMENTS

1. Introduction

1.1 EMI and Time Warner have agreed in the Combination Agreement that they will enter into further agreements in respect of their interests in Warner EMI Music at or before the Closing Date. These agreements, including the proposed Agreement Between Parents, WEM US Partnership Agreement and WEM UK Shareholders' Agreement, are expected to be substantially on the terms summarised below.

1.2 WEM US will be a Delaware general partnership, with a subsidiary or subsidiaries of Time Warner (the "Time Warner Partners") and a subsidiary or subsidiaries of EMI (the "EMI Partners", and together with the Time Warner Partners, the "WEM US Partners") being the sole general partners. WEM UK will be a private limited company incorporated in England and Wales, with subsidiaries of Time Warner and EMI being its only shareholders.

2. Management

2.1 The Warner EMI Music Boards will be identical and will each have 11 members. Time Warner will have the right to appoint six members of each of the Warner EMI Music Boards, and EMI will have the right to appoint five members, one of whom will be the Chairman of the EMI Board. Except as described below, all decisions of each of the Warner EMI Music Boards will be determined by a majority vote of that Board.

2.2 The WEM US Partners may act for WEM US only through a majority vote at a meeting of the WEM US Partners, or by the written consent of all the WEM US Partners. The sole forum for WEM US Partners' meetings will be a board of partner representatives (the "WEM US Board"). The Time Warner Partners and the EMI Partners will be represented at meetings of WEM US Partners through their designated representatives (each a "Representative"). In any vote of the WEM US Partners, the Time Warner Partners will be entitled to six votes, and the EMI Partners will be entitled to five votes. The Time Warner Partners will be entitled to six Representatives and the EMI Partners will be entitled to five Representatives. The Time Warner Partners and the EMI Partners will each designate one Representative to act for such Partners' group for purposes of casting all of its votes, acting by consent or exercising the other governance rights of the WEM US Partners.

2.3 The WEM UK Board will consist of 11 directors. Time Warner will have the right to appoint six members, and EMI will have the right to appoint five members.

2.4 The following matters will require the approval of EMI and its shareholders:

(a) a declaration of voluntary bankruptcy, dissolution or liquidation;

(b) any transaction between, on the one hand, a member of the WEM UK Group or the WEM US Group and, on the other hand, a member of the Time Warner Group (or, after the proposed AOL Time Warner merger, AOL Time Warner or any of its Affiliates) or any other relevant related party that as a result of the application of the Listing Rules (including a guidance note issued by the UK Listing Authority which provides that variations to any shareholder agreement governing structure and the relationship between parent companies will normally be considered to fall within Chapter 11 of the Listing Rules subject to certain *de minimis* exemptions) to the WEM Entities requires the approval of EMI's shareholders as a related party transaction under Chapter 11 of the Listing Rules (other than any equity issuance under paragraph 2.5(b) below);

(c) any member of the WEM UK Group or the WEM US Group engaging in any material business outside the Music Business;

(d) any incurrence of Financial Indebtedness (as defined in paragraph 2.11 below) by Warner EMI Music such that the ratio of Net Financial Indebtedness (as defined in paragraph 2.11 below) to EBITDA (excluding Columbia House), of Warner EMI Music on a combined basis (determined in accordance with UK GAAP) would exceed 6:1; and

(e) any acquisition or disposition of assets or businesses by any member of the WEM UK Group or the WEM US Group, any merger, consolidation or joint venture involving any member of the WEM UK Group or the WEM US Group, or any member of the WEM UK Group or the WEM US Group entering into indemnities outside the ordinary course of business that, as a result of the application of Chapter 10 of the Listing Rules to Warner EMI Music, requires the approval of EMI shareholders.

2.5 The following matters will require the approval of EMI:

(a) any deviation by WEM UK or WEM US from the distribution policy described in paragraph 4 below (although any such deviation will not require EMI's approval if a Change of Control (as defined in paragraph 6.3 below) has occurred in respect of EMI unless Time Warner has elected not to exercise, or has lost or defaulted under, its resulting purchase right (as described in paragraph 6.1 below));

(b) any creation or issuance by WEM US or WEM UK of equity interests, or securities convertible into, exchangeable for, or options to acquire, equity interests, other than pursuant to a pro rata rights offering for cash of convertible preferred equity interests or convertible debt securities that is made (i) only when the ratio of EBITDA (excluding Columbia House) to net interest expense of Warner EMI Music on a combined basis as at the end of three consecutive fiscal quarters is less than 1.3:1 and (ii) after at least 90 days' notice by WEM US or WEM UK to EMI;

(c) any redemption, repurchase, conversion or cancellation of ordinary equity interests in WEM US or WEM UK or of equity interests in any other member of, respectively, the WEM US Group or the WEM UK Group held by any member of the Time Warner Group or of the EMI Group (each as defined in paragraph 2.12 below);

(d) any amendment to the WEM US Partnership Agreement, the WEM UK Shareholders' Agreement, the Agreement Between Parents and certain other documents in connection with the Combination, including any change in the size of one of the Warner EMI Music Boards and any distribution that is not in accordance with such agreements;

(e) any investment by any member of the WEM UK Group or the WEM US Group after the Closing Date in the equity or indebtedness of Columbia House;

(f) any transaction between any member of the WEM UK Group or the WEM US Group and a member of the Time Warner Group (or, after the proposed AOL Time Warner merger, AOL Time Warner or any of its Affiliates) that involves a licence or other control right or ownership that confers exclusivity over assets of any member of the WEM UK Group or the WEM US Group that generated in the previous fiscal year, or is expected to generate on average over the next five fiscal years, or the consideration for or value of the grant of the licence or other right is either more than 5 per cent. of prior fiscal year revenues (and any such transaction where any of the foregoing is more than 1 per cent. of prior fiscal year revenues shall require the approval of the WEM US Partners or the WEM UK Board, as the case may be). For these purposes, "prior fiscal year revenues" means the consolidated total revenue of the WEM Entities (or, where relevant, their predecessor businesses) generated from all sources in the recorded music business, or net publisher's share in the music publishing business;

(g) any issuance by any member of the WEM UK Group (other than WEM UK) or the WEM US Group (other than WEM US) of equity interests or securities convertible into, or exchangeable for, or options to acquire, an equity interest in such member, if the transaction in which the equity interests, securities or options are to be issued would have required the approval of EMI's shareholders under paragraph 2.4(e) above if such transaction had been structured as an equivalent disposition of assets or businesses by any member of the WEM UK Group or the WEM US Group; and

(h) any transfer directly or indirectly of all or any portion of WEM US's current investment in Columbia House to any member of the Time Warner Group or WEM UK or WEM Finance or any of their subsidiaries.

2.6 Each of the Warner EMI Music Boards will have two Co-Chairmen, one appointed by Time Warner and one appointed by EMI. The Co-Chairmen will be jointly responsible to the WEM UK Board or the WEM US Partners for the strategic and financial direction of, respectively, WEM UK and WEM US. The decisions of the Co-Chairmen must be unanimous, and any disagreements will be referred to the WEM UK Board or the WEM US Partners (as the case may be) for resolution by a majority vote.

2.7 Within the five years following Closing, a Co-Chairman may only be removed from office by the WEM UK Board or the WEM US Partners (as the case may be) for misconduct. If a Co-Chairman ceases for any reason to hold office, the party who appointed him or her will appoint his or her successor. However, the appointment of a successor Co-Chairman by EMI will be subject to the prior approval of Time Warner, which may not act arbitrarily or capriciously in withholding its approval. After five years following the Closing Date, each of the Co-Chairmen will serve at the pleasure of the WEM UK Board or the WEM US Partners (as the case may be), and the WEM UK Board or the WEM US Partners (as the case may be) may remove either Co-Chairman so long as in doing so it does, or they do, not act arbitrarily or capriciously. If, after five years following the Closing Date, either Co-Chairman ceases to hold office, the party which appointed him or her will be entitled to appoint his or her successor, subject to the approval of the WEM UK Board or the WEM US Partners (as the case may be) which may not act arbitrarily or capriciously in withholding such approval. At any time, the party which appointed a Co-Chairman may remove him or her from office. EMI or Time Warner will lose its rights described in paragraph 2.6 above and this paragraph 2.7 (except for its rights described in the preceding sentence) if a Change of Control occurs in respect of it unless the other party has elected not to exercise, or has lost or defaulted under, its resulting purchase right.

2.8 Each of WEM UK and WEM US will have an Executive Committee consisting of the two Co-Chairmen, and one other member of the appropriate Warner EMI Music Board appointed by Time Warner. Each Executive Committee will act by majority vote. The operations of WEM UK and WEM US will be managed under the direction of the WEM UK Board and the WEM US Partners, respectively. All executive officers will serve at the pleasure of the WEM UK Board or the WEM US Partners (as the case may be).

2.9 Each of WEM UK and WEM US will have a Chief Executive Officer, a Chief Operating Officer, a Chief Financial Officer and such other officers as the WEM UK Board or the WEM US Partners (as the case may be) may appoint. All executive officers will serve at the pleasure of the WEM UK Board or the WEM US Partners (as the case may be). The Chief Executive Officer will report to the WEM UK Board or the WEM US Partners (as the case may be) through the Co-Chairmen. The Chief Executive Officer and other officers will manage the day to day affairs of WEM UK and WEM US under the direction of the WEM UK Board and the WEM US Partners, respectively, and consistent with, respectively, the WEM UK Shareholders' Agreement and the WEM US Partnership Agreement.

2.10 Upon the request of EMI, each senior executive officer of Warner EMI Music (including the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer) will attend meetings of the EMI Board and meetings of the shareholders of EMI. Upon the reasonable request of EMI, each such senior executive officer will attend EMI presentations to the investment community and meet with shareholders of EMI in accordance with normal investor relations practices.

2.11 "Financial Indebtedness" means (a) indebtedness for borrowed money, (b) obligations evidenced by bonds, debentures, notes, commercial paper, bills of exchange or other similar instruments, (c) obligations to pay the deferred purchase price of property or services (excluding certain trade accounts), (d) capital lease obligations, and (e) net obligations in respect of any interest rate protection agreement or any currency swap, cap or collar agreement or similar arrangement providing for the transfer or mitigation of currency risks. "Net Financial Indebtedness" means the combined total of Financial Indebtedness of the WEM Entities and their subsidiaries less the combined total of cash and marketable securities of the WEM Entities and their subsidiaries.

2.12 In this Part 8, (i) "Time Warner Group" means Time Warner and its Affiliates, (ii) "EMI Group" means EMI and its Affiliates, (iii) "WEM UK Group" means WEM UK and its subsidiaries, and (iv) "WEM US Group" means WEM US and its subsidiaries.

3. Accounting and reporting

3.1 WEM UK and WEM US will each have the same auditors and the same financial year-end (currently 31 December), as Time Warner.

3.2 The books and financial reports of each of WEM UK and WEM US will be maintained in both US GAAP and UK GAAP and will be made available to each of Time Warner and EMI. WEM UK and WEM US will provide such other financial and other information to EMI and Time Warner as is necessary for them to comply with their own normal and customary communication, response, reporting and disclosure to shareholders, analysts, the investment community and the press, or to comply with applicable law or the Listing Rules. This includes: (i) timely disclosure to EMI of any transaction between any member of, on the one hand, the WEM US Group or the WEM UK Group and, on the other hand, a member of the Time Warner Group (or, after the proposed AOL Time Warner merger, AOL Time Warner or any of its Affiliates) that, had the WEM Entities been listed as a combined entity with the UK Listing Authority, would have required disclosure to such entity's shareholders under the Listing Rules; (ii) monthly management information (both actual and forecast); (iii) information about material transactions and other matters under discussion; (iv) budgets and business plans; (v) an annual report of transactions between any member of the WEM UK Group or WEM US Group and any member of the Time Warner Group (or, after the proposed AOL Time Warner merger, AOL Time Warner or any of its Affiliates) in aggregated, summary form that it is sufficiently detailed to permit EMI to understand the nature and extent of, and any payment made with respect to, the material categories of transactions; and (vi) periodic meetings with the management of the WEM UK Group and WEM US Group to discuss the business, results of operations, financial position, strategy and other affairs of the WEM UK Group or the WEM US Group upon the reasonable request of EMI.

3.3 WEM UK and WEM US will deliver UK GAAP financial statements to EMI on a quarterly, semi-annual and annual basis in order to permit EMI to prepare quarterly, semi-annual and annual reports to its shareholders.

3.4 WEM UK and WEM US will provide to EMI the same level of access to both officers and information (financial and otherwise) in connection with EMI's reporting requirements and ongoing relationship with the investment community as they provide to Time Warner.

4. Distributions and preferred equity

4.1 Subject to paragraph 4.4 below, the WEM UK Board and the WEM US Partners will determine the annual distributions of Warner EMI Music with the following payment levels: (i) for the fiscal period of nine months ending 31 December 2000, Qualifying Payments (as defined in paragraph 4.3 below) equal to 75 per cent. of the Distribution Level (as defined in paragraph 4.2 below) to each of EMI and Time Warner; (ii) for the fiscal years ended 31 December 2001 and 2002, Qualifying Payments equal to 100 per cent. of the Distribution Level to each of EMI and Time Warner; (iii) for fiscal years ending 31 December 2003 onwards, Qualifying Payments equal to 80 per cent. of Warner EMI Music's combined profit attributable to ordinary shareholders after minority interests, tax and tax distributions, and before amortisation of intangible assets, exceptional items, and profit or loss from the Columbia House investment (all calculated in accordance with UK GAAP). Subject to paragraph 4.4 below, if, in any fiscal year after 2002, the aggregate amount of Qualifying Payments received by EMI from Warner EMI Music is less than the Distribution Level in respect of such fiscal period, additional Qualifying Payments sufficient to make up the shortfall would be paid to EMI by Warner EMI Music. The WEM UK Board and the WEM US Partners may make such additional cash distributions as they determine.

4.2 The "Distribution Level" means the sum of: (i) the current dividend level of EMI (being £126 million) increased pro rata to take account of EMI Ordinary Shares issued pursuant to conversion of the Convertible Deferred Shares or upon exercise of EMI employee options granted prior to the Closing Date, increased each fiscal year after the 2002 fiscal year of Warner EMI Music by a percentage equal to the cumulative percentage increase in the UK Retail Prices Index since April 2000; and (ii) EMI's estimated consolidated corporate overhead and interest costs and taxes on WEM Entity-related income (less tax distributions made to any subsidiary of EMI which holds an interest in a WEM Entity).

4.3 "Qualifying Payments" means: (i) cash distributions by WEM US with respect to its ordinary equity (other than tax distributions and distributions related to Columbia House); (ii) cash dividends by WEM UK with respect to its ordinary equity; (iii) cash distributions by WEM Finance on its general and limited partnership interests (but not on its preferred interests); and (iv) guarantee fees actually paid in cash by WEM Finance to the relevant subsidiaries of Time Warner and EMI.

4.4 The financial policies of each of WEM UK and WEM US, including as to gearing levels and target credit ratings, will be determined by the WEM UK Board and the WEM US Partners, respectively, so as to secure the payment levels referred to in paragraph 4.1 above. However, this obligation, and these payment levels, will be subject to the ability of Warner EMI Music in the aggregate to meet the cash requirements needed to operate its businesses in the ordinary course without prejudicing the objective that Warner EMI Music in the aggregate maintains an investment grade credit rating, unless the WEM UK Board and the WEM US Partners determine that a lower rating is in the best interests of WEM UK and WEM US. Subject to the foregoing, the management of Warner EMI Music will use its best efforts to maintain an investment grade credit rating for Warner EMI Music in the aggregate.

4.5 Warner EMI Music will also make cash distributions to allow EMI and Time Warner to pay US federal, state and local income and franchise taxes arising as a result of their participation in Warner EMI Music.

4.6 Distributions will be made equally to the Time Warner Partners and the EMI Partners, subject to paragraph 4.10 below and any adjustment needed to reflect any transfer of interests in Warner EMI Music.

4.7 Any annual distributions of the kind described in paragraph 4.1 above will be made in the form of interim and final distributions, each in sufficient time to allow EMI to make its own interim and final dividend payments to its own shareholders on customary dates for UK-listed companies. To the maximum extent possible, distributions from Warner EMI Music will be allocated so that 75 per cent. of the expected aggregate annual distributions will be paid in the final distributions, and 25 per cent. in the interim distributions. The distribution for the fiscal period 2000 referred to in paragraph 4.1(i) above will be paid in May 2001 (subject to delay in certain circumstances).

4.8 The WEM UK Group and the WEM US Group will each use reasonable efforts not to enter into any credit facility, loan agreement, indenture or other document that contains any restriction on its ability to make distributions to its shareholders or partners (as the case may be). Prior to entering into any such document, WEM UK or WEM US will inform EMI of its intent to enter into the same and will provide EMI with the opportunity to negotiate with the creditor in respect thereof. The WEM UK Group and the WEM US Group will not enter into any credit facility, loan agreement, indenture or other document that contains any restrictions on their ability to make tax distributions.

4.9 EMI has agreed that, in the three and a half years after Closing, it will distribute to its shareholders, by dividend, repurchase of shares or otherwise, all cash distributions and guarantee fees EMI receives from Warner EMI Music, other than funds reasonably required by EMI to pay corporate overheads and taxes and to pay current or reasonably anticipated liabilities, and other than (after the final distribution in respect of fiscal 2002) an additional amount not greater than 5 per cent. of the related distribution from the WEM Entities.

4.10 Net cash proceeds arising on any disposal of the current investment in Columbia House that will be contributed to WEM US and any cash distribution with respect to such Columbia House investment will be distributed entirely to Time Warner until it has received $1,000 million, and thereafter 75 per cent. to Time Warner and 25 per cent. to EMI (subject to adjustment). If WEM US sells its current Columbia House investment and receives, as consideration, securities in an entity which does not conduct a significant Music Business, then these securities will be similarly distributed.

4.11 Subject to paragraph 2.5(b) above, Warner EMI Music may issue preferred equity containing market terms and having no voting or consent rights. Any preferred equity will be subject to the same restrictions on transfer as ordinary equity (see paragraph 5 below).

4.12 There are also certain provisions relating to non-cash distributions by WEM Entities.

5. Transfers

5.1 Neither EMI nor Time Warner may transfer any interest in its equity interests in any WEM Entity, save for certain intra-group transfers and save as referred to in this paragraph 5 and in paragraph 7 below.

5.2 Time Warner or EMI may transfer its entire interest in all the WEM Entities at any time following three years after the Closing Date: if (i) it notifies the other of its desire to do so; (ii) it provides a copy of a bona fide binding agreement entered into with a non-Affiliate of the transferor (the "Third Party Transferee") providing for consideration solely in cash; (iii) within 60 days of receipt of such notice, the other party does not elect to purchase such interest on the same terms as the Third Party Transferee has agreed to do so; and (iv) the transfer to the Third Party Transferee is completed within 180 days of receipt of such notice on terms no less favourable to the transferor than those set out in the binding agreement. If the party which has received a transfer notice elects to purchase the entire interest for sale, then the selling party will be bound to sell it the interest on the same terms as set out in the binding agreement.

5.3 The holder of Time Warner's interests in the WEM Entities may make a public distribution of such holder's shares. If, as a result, the holder ceases to be a subsidiary of Time Warner, such holder will replace Time Warner under the Agreement Between Partners, the WEM US Partnership Agreement and the WEM UK Shareholders' Agreement, but Time Warner would continue to be bound by the non-compete provisions referred to in paragraph 8 below for a period of at least three years after closing of such distribution.

5.4 The restrictions referred to in paragraph 5.1 will not be breached by the holder of an interest in a WEM Entity granting an encumbrance to secure a guarantee by it of any obligations of WEM Finance (see paragraph 12 below), or any transfer by any such holder as a result of enforcement of any such guarantee.

5.5 The restriction in paragraph 5.1 does not apply to: (i) encumbrances by EMI pursuant to the EMI Credit Facility; (ii) an encumbrance by EMI (other than over the interest referred to in paragraph 7 below) where the pledgee is an independent financial institution, the pledgee agrees to be bound by all transfer restrictions by EMI, and the secured obligations are full-recourse to EMI and are of the nature of loans or letters of credit; or (iii) any transfer by EMI to the pledgee as a result of enforcement of any such encumbrance.

6. Change of control

6.1 In the event of a Change of Control of either EMI or Time Warner, the other party will have the right to purchase all the ownership interest in Warner EMI Music owned by such party. This right will remain exercisable for six months following the Change of Control, or for a year following a Change of Control which occurs within three and a half years after Closing. The purchase price on exercise of such purchase right, which will be payable in cash, will be set at a fair market value (including, in the case of Time Warner's interest, a control premium) as determined under a procedure which involves each of EMI and Time Warner appointing an investment bank to submit proposals to an independent investment bank.

6.2 Upon a Change of Control of EMI or Time Warner, the affected party will lose certain of its rights as described in paragraphs 2.5(a), 2.6 and 2.7 above.

6.3 With respect to EMI, a "Change of Control" will mean: (i) any person or persons acting in concert owning 30 per cent. or more of EMI's voting rights; (ii) more than one-third of EMI's Directors being "subject directors" (such phrase being defined to mean persons either (a) originally nominated for election as a director by a shareholder or a group of shareholders acting in concert, or (b) whose original election (whether by the board, or by the shareholders) to the EMI Board took place when there were other subject directors on the board whose election was not approved by all the non-subject directors); or (iii) a winding-up or other insolvency or administration of EMI, other than any such winding-up or other insolvency or administration resulting directly from any claim or demand against, or any obligation or liability of, any WEM Entity.

6.4 With respect to Time Warner, a "Change of Control" will include: (i) more than one-third of the directors of Time Warner being subject directors (such phrase being defined to mean persons either (a) originally nominated for election as a director by a stockholder or group of stockholders acting in concert and whose original election was not approved by the nominating committee of the board of Time Warner, or (b) whose original election (either by the board or the stockholders) took place when there were other subject directors and whose original election was not approved by all the non-subject directors); or (ii) any bankruptcy, insolvency or administration of Time Warner, other than any such winding-up or other insolvency or administration resulting directly from any claim or demand against, or any obligation or liability of, any WEM Entity. The closing of the proposed Time Warner AOL merger will not constitute a "Change of Control" for these purposes.

7. EMI put and call options

7.1 Time Warner has agreed to grant to EMI put and call options in respect of 1 per cent. of EMI's ownership interest in each of the WEM Entities. The exercise price of the put option will be £100 million (subject to adjustment as explained below). EMI may exercise the put option at any time prior to the fifth anniversary of the Closing Date provided that EMI must have fully borrowed at the time of such exercise all amounts available to it under the EMI Credit Facility. EMI may only use the proceeds of the put option to pay obligations or liabilities to the extent attributable to actions occurring or conditions first arising prior to 24 January 2000 and that arose from either EMI Retained Assets (as defined in paragraph 1.3 of Section A of Part 9 of this document) or certain other rental guarantee liabilities.

7.2 The call option may be exercised at any time within three and a half years after closing of the put option. The exercise price of the call option will be £100 million (subject to adjustment as explained below), increased for each financial quarter (or part thereof) after the closing of the put option at an annual rate of 2 per cent. above the weighted average annual interest rate paid by Warner EMI Music on its revolving credit facilities.

7.3 If EMI borrows money to invest in HMV Media (see paragraph 9.1 below) the put option price will be reduced by an equal amount, and the ownership percentage in the WEM Entities which is subject to the put option will be reduced proportionately. If, prior to exercise of the put option, EMI repays such borrowing then, on the first occasion it does so, but not on subsequent occasions, the put option price, and the ownership percentage which is subject to the put option, will be restored to their original levels.

7.4 Following the exercise of the put option, and until the earlier of the exercise of the call option and three and a half years after the exercise of the put option, EMI will be prohibited from making any distributions to its shareholders, whether by cash dividend, share repurchase or otherwise.

7.5 The put and call options will terminate in certain circumstances, including material defaults under the relevant agreements, a Change of Control of EMI and certain insolvency events.

8. Non-compete covenant

8.1 EMI and Time Warner have agreed that, after the Closing Date, Time Warner and its Controlled Affiliates (as defined in paragraph 8.5 below) will not, and, following three and a half years after the Closing Date, EMI, Time Warner and their respective Controlled Affiliates also will not, engage directly or indirectly anywhere in the world in the Record Business or the Music Publishing Business (as defined in paragraph 8.6 below), other than through Warner EMI Music. As regards restrictions on EMI in the first three and a half years after Closing, see paragraph 9.1 below.

8.2 This prohibition will not apply to EMI or Time Warner pursuing independently certain defined businesses including: (i) producing and exploiting soundtracks for motion pictures, television programmes and similar entertainment programmes; (ii) the music programming service business, including ownership and operation of broadcast and satellite music-video channels and music-video based internet websites; (iii) (other than with respect to music videos) producing, manufacturing, packaging, advertising, marketing, promoting and distributing audio-visual programmes on any media; (iv) promoting concerts; (v) the record business of Time Life Inc. (subject to certain further restrictions); (vi) the Record Business or Music Publishing Business where such business is merely incidental to another business as currently conducted, and as may reasonably evolve (including evolution of such other business resulting from the application of the internet to such business); (vii) any Record Business or Music Publishing Business carried on by AOL or its Controlled Affiliates as at the later of the Closing Date and the date of closing of the proposed AOL Time Warner merger; (viii) operating "bricks and mortar" or on-line stores selling audio and audio-visual recordings in a physical form to consumers; or (ix) establishing or operating any internet website or business to distribute in digital or other form audio and audio-visual recordings (the major portion of which is acquired from third parties including Warner EMI Music other than performance of musical works) to consumers. There are certain further exceptions to the prohibition referred to in paragraph 8.1 above which are relevant to small operations or small holdings.

8.3 In the event that either Time Warner or EMI (assuming the expiration of the period described at paragraph 8.1 above) acquires knowledge of a potential corporate opportunity for Warner EMI Music falling within the prohibition at paragraph 8.1 above, it will not be entitled to pursue or acquire such opportunity for itself or to direct such opportunity to another person.

8.4 At the later of the Closing Date and the closing of the proposed AOL Time Warner merger, Time Warner will cause AOL Time Warner and its Controlled Affiliates to be bound by the non-compete provisions referred to in this paragraph 8. If Time Warner (or, following the closing of the AOL Time Warner merger, AOL Time Warner) becomes a Controlled Affiliate of any other person, Time Warner will cause such other person and its Controlled Affiliates to be bound by the non-compete provisions referred to in this paragraph 8.

8.5 "Controlled Affiliate" means, in respect of a party, any entity in respect of which the party in question (a) owns an interest of 50 per cent. or more in its common equity securities or interests in profits (b) elects a majority of its board of directors or (c) owns 50 per cent. or more of the securities or interests having a right to elect directors.

8.6 "Record Business" means the business of (a) entering into agreements with performers of musical works, production companies or owners of rights in sound recordings (with or without visual images) for the acquisition, production, manufacturing, packaging, advertising, marketing, promotion, commercial distribution or other exploitation by whatever means, whether now known or hereafter developed, of recorded music (master recordings embodying reproductions of performances, both audio and audio-visual, of musical works, alone or accompanied by visual images, in a format, (physical or non-physical) capable of mass reproduction or distribution) and (b) exercising and authorising the exercise of rights under such agreements. "Music Publishing Business" means the business of (a) entering into agreements with composers, songwriters, lyricists, production companies or owners of rights in musical compositions for the acquisition, creation, advertising, marketing, promotion, administration or other exploitation of musical compositions or musical arrangements and (b) exercising and authorising the exercise of rights under such agreements.

9. Other covenants

9.1 EMI has agreed that, in the three and a half years after the Closing Date, it will not engage in or agree to engage in any business activities other than its ownership of the WEM Entities and its ownership of the EMI Retained Assets (as defined in paragraph 1.3 of Section A of Part 9 of this document). EMI has further agreed that its aggregate investment in and equity ownership percentage of any such EMI Retained Asset will not exceed the levels existing at 23 January 2000 except that EMI may make up to £100 million additional investment in HMV Media equity or any other EMI Retained Asset that is a minority investment so long as EMI's fully diluted ownership percentage therein does not increase as a result.

9.2 Time Warner has agreed that if, after the Closing Date, Time Warner and its subsidiaries (together with, after closing of the proposed AOL Time Warner merger, AOL Time Warner and its subsidiaries) owns shares in EMI that together comprise less than 30 per cent. of all the voting rights in EMI, Time Warner or AOL Time Warner (as the case may be) will vote such shares proportionately with the other shares in EMI voting on any matter.

9.3 EMI has agreed that, in the three and a half years after the Closing Date, it will only be permitted to incur indebtedness either: (i) reasonably necessary to fund its liabilities and obligations the proceeds of which are used in a manner consistent with paragraph 4.9 above; or (ii) used to finance an investment in HMV Media in accordance with paragraph 9.1 above. However, the preceding restrictions on the incurrence of debt by EMI will not apply after three years from the Closing Date if Time Warner has delivered to EMI (and not withdrawn) notice of intent to transfer its equity interests in the WEM Entities in accordance with paragraph 5.2 above.

9.4 Any debt or equity investment by Time Warner in Columbia House must first be offered to WEM US, and EMI will decide whether WEM US exercises its right to take up such offer. Any profits and losses on such additional investment by WEM US in Columbia House would be shared proportionately among the WEM US Partners.

9.5 Warner EMI Music will provide EMI with such reasonable co-operation as may be necessary to assist EMI in complying with the Listing Rules insofar as they are applied through EMI to Warner EMI Music and EMI's interests in Warner EMI Music.

9.6 Time Warner will use its reasonable efforts to ensure that any directors of WEM UK, partner representatives of WEM US, and any senior officers of WEM UK and WEM US, appointed by Time Warner will comply with any requirements of the UK Listing Authority and the London Stock Exchange to the extent the UK Listing Authority or the London Stock Exchange (as the case may be) determines they are applicable.

10. Indemnities

10.1 WEM UK and WEM US will, with certain exceptions, indemnify each of EMI and Time Warner and their directors, officers, employees and agents against any liabilities and obligations arising out of: (i) its status as a partner or shareholder; (ii) acts or omissions or alleged acts or omissions of any partner or shareholder in its capacity as such or on behalf of WEM US or WEM UK; or (iii) any liability or obligation of the WEM US Group or the WEM UK Group. Without limiting the generality of this paragraph 10.1, a liability or obligation shall be deemed to arise out of a liability or obligation of the WEM US Group or the WEM UK Group if it arises out of or is based upon the conduct of the business of the WEM US Group or the WEM UK Group, the ownership, lease or operation of any property of the WEM UK Group or the WEM US Group or any assets or liabilities to be contributed by EMI or Time Warner to Warner EMI Music under contribution agreements to be entered into pursuant to the Combination Agreement.

10.2 WEM UK and WEM US will indemnify Time Warner and EMI, as the case may be, against: (i) any Assumed Tax Liabilities (as defined in paragraph 10.3 below); and (ii) any damages arising out of or incident to such Assumed Tax Liabilities. This indemnity will not apply to the extent that any tax liabilities were taken into account in the determination of the assets and liabilities to be contributed to WEM UK and WEM US pursuant to the Combination Agreement (see paragraph 1.13 of Section A of Part 9 of this document).

10.3 "Assumed Tax Liabilities" is defined to include: (i) tax liabilities arising out of the ordinary course conduct of the Warner Music Business (except with respect to the Time Warner Retained Assets (as defined in paragraph 1.6 of Section A of Part 9 of this document)), in the case of Time Warner, and the EMI Music Business (except with respect to the EMI Retained Assets (as defined in paragraph 1.3 of Section A of Part 9 of this document)), in the case of EMI; and (ii) transfer taxes arising on the Combination.

10.4 WEM UK and WEM US will also indemnify Time Warner and EMI against all liabilities assumed by them pursuant to the Combination Agreement provided that such indemnity will not lead to double recovery under the contribution arrangements in the Combination Agreement (see paragraph 1.13 of Section A of Part 9 of this document).

10.5 Time Warner has agreed to indemnify each member of the WEM US Group against: any losses with respect to Columbia House (other than (i) losses solely attributable to the inclusion by the WEM US Group within its financial statements and tax returns of a portion of losses incurred by Columbia House if such losses are allocated solely to the Time Warner Partners; (ii) any diminution in value of the WEM US Group's net after tax initial interest in Columbia House; or (iii) any loss on sale of such initial interest). Time Warner will also reimburse the WEM US Group for the cost of any indirect financial support provided by any member of the WEM US Group to Columbia House.

10.6 WEM UK and WEM US will (subject to certain limitations) indemnify its Partner representatives (in the case of WEM US), directors (in the case of WEM UK), and officers against proceedings by reason of their being the same.

10.7 The indemnities referred to in this paragraph 10 will not be subject to any cap on liability.

11. Other Matters

11.1 Business opportunities and expenses will be allocated to the appropriate WEM Entity. EMI and Time Warner will, to the extent commercially reasonable to the WEM Entities, endeavour to maintain substantially similar capital structures in each WEM Entity.

11.2 The WEM UK Shareholders' Agreement and the WEM US Partnership Agreement will include certain provisions relating to the liquidation or dissolution of WEM UK or WEM US.

11.3 Receipts by WEM US from Columbia House will accrue wholly for the benefit of Time Warner until they reach $1,000 million, after which they will be shared as to 75 per cent. for Time Warner and 25 per cent. for EMI (subject to adjustment). In general, all losses with respect to Columbia House will accrue to Time Warner.

12. Covenants relating to WEM Finance

12.1 Each of EMI and Time Warner will ensure that any of its subsidiaries which hold EMI's or Time Warner's (as the case may be) interest in the WEM Entities will not carry on any business or own any assets other than: (i) owning the ownership interest of EMI or Time Warner (as the case may be) in any WEM Entity; (ii) activities contemplated by paragraphs 12.7 and 12.8 below; and (iii) owning debt or equity securities of EMI or Time Warner (as the case may be) or any of its subsidiaries.

12.2 Neither EMI nor Time Warner will permit a subsidiary of it which owns an interest in any WEM Entity to discharge any guarantee by such subsidiary of any obligation of WEM Finance other than out of the direct or indirect proceeds of a distribution by a WEM Entity.

12.3 EMI and Time Warner acknowledge that, although the subsidiaries which hold their respective interests in WEM Entities are expected to give full, joint and several guarantees of the obligations of WEM Finance ("WEM Finance Guarantees"), as between EMI and Time Warner these guarantees are intended to reflect their ownership interest in each WEM Entity relative to the other party immediately prior to any required payment or transfer by any such subsidiary in respect of, or any enforcement of, any such guarantees.

12.4 If, following any required payment or transfer by any relevant subsidiary of EMI or Time Warner (a "penalised party") in respect of, or any enforcement of, a WEM Finance Guarantee, the proportionate interest of EMI or Time Warner in any WEM Entity is less than its initial proportionate interest, the other party will be obliged to transfer to the penalised party for no consideration an additional ownership interest in such WEM Entity such that the penalised party's proportionate interest in such WEM Entity equals its initial proportionate interest in such Entity.

12.5 If, following and as a result of, the sale of any interest in any WEM Entity by or on behalf of the beneficiary of any WEM Finance Guarantee, EMI or Time Warner receives cash that is not applied to the reduction of the obligations of WEM Finance, it will pay to the other party an amount in cash such that the net cash receipts by both parties are in the same proportion as their initial proportionate interests.

12.6 If the holder of an interest in a WEM Entity makes a required payment or transfer in respect of any WEM Finance Guarantee, the recourse of such holder against another holder under rights of subrogation shall be limited to direct and indirect proceeds of future distributions by a WEM Entity (although the rights referred to in paragraph 12.5 above may be enforced).

12.7 Time Warner will cause the subsidiaries of it which hold interests in WEM Entities, and EMI will cause the subsidiaries of it which holds interests in WEM Entities, at any time and from time to time, in connection with any incurrence of indebtedness by WEM Finance, including under any credit facility or loan agreement, pursuant to any issuance of bonds, debentures or notes, through any offering of commercial paper or by any other means (including the Time Warner Facility and any other indebtedness owed to any member of the Time Warner Group or the EMI Group), to enter into full joint and several guarantees in a form which has been agreed between EMI and Time Warner of all obligations of WEM Finance in respect of such indebtedness, if requested by the board of WEM Finance.

12.8 In connection with any incurrence of indebtedness by WEM Finance, each of Time Warner and EMI will cause their respective subsidiaries which hold interests in WEM Entities, if requested by the board of WEM Finance, to enter into facilities, agreements, indentures and other documents with the creditors in respect of such indebtedness containing covenants, representations and warranties with respect to such holder or each WEM Entity in which it holds an interest, in a form and substance reasonably satisfactory to such creditors, provided that: (a) neither compliance with such covenants nor making such representations and warranties would result in any breach of certain agreements relating to the Combination; (b) all other holders of interests in WEM Entities agree to comply with such covenants and make such representations and warranties by entering into such facility, agreement, indenture or other document; and (c) none of the covenants, representations and warranties may prohibit or restrict the payment by any such holder of cash or other property received by it as a dividend, distribution, equity repurchase, redemption or other payment on its equity interest in a WEM Entity or a guarantee fee in respect of any guarantee provided by such holder (i) on the assumption that such payment is made substantially simultaneously with receipt by such holder of the cash or other property from such WEM Entity and (ii) if the dividend, distribution, equity repurchase, redemption or other payment from such WEM Entity was not in violation of any covenant, representation or warranty of any WEM Entity entered into in accordance with paragraph 4.8 above. None of the covenants, representations and warranties may prohibit or restrict the payment of cash distributions as tax distributions.

B. RELATIONSHIP BETWEEN WARNER EMI MUSIC AND ITS PARENTS

1. Introduction

1.1 Time Warner and EMI have agreed certain matters in respect of the relationships between Warner EMI Music and each of Time Warner and EMI as summarised in paragraph 2 below.

1.2 The EMI Directors and the Proposed WEM Directors and Officers are satisfied that Warner EMI Music will be capable of carrying on its business independently of Time Warner and EMI (and their respective subsidiaries and associates), and that all transactions and relationships between Warner EMI Music and Time Warner and EMI (and their respective subsidiaries and associates) will be at arm's length.

2. Agreed principles

2.1 All transactions between any member of the WEM UK Group or the WEM US Group and any member of the Time Warner Group will be on arm's length terms as between independent third parties (subject to paragraph 2.2 below). For these purposes, arm's length terms will be assessed in the context of the current market practice for the quality, type and length of rights being granted. In new media arrangements, for example, this currently might include factors such as equity rights, supply of customer information or e-mail addresses, and commitment to link on-line sites. An integrated series of similar or related contemporaneous transactions are to be considered in the aggregate for these purposes. In this connection, Time Warner acknowledges that it would not be permissible after the proposed AOL Time Warner merger for Time Warner to cause the WEM UK Group or the WEM US Group to enter into an exclusive arrangement to provide music to AOL or its Affiliates on terms which, taking all relevant facts and circumstances into account (including prevailing market terms for transactions between AOL (or its Affiliates) and unaffiliated third parties or between the WEM UK Group or the WEM US Group and unaffiliated third parties), are disadvantageous to the WEM UK Group or the WEM US Group.

2.2 Corporate services will be provided by Time Warner to Warner EMI Music, and by Warner EMI Music to EMI, under the services agreements referred to in paragraphs 3.1 and 3.9, respectively, below, which provide for such services to be provided at actual cost.

2.3 Transactions between Warner EMI Music and Columbia House must also be on an arm's length basis as between independent third parties (determined for these purposes as though WEM US had no investment in Columbia House). Transactions between any member of the WEM UK Group or the WEM US Group and Columbia House other than in the ordinary course of business must be approved in advance by the Board of WEM UK or the WEM US Partners (as the case may be). The foregoing does not apply to certain agreements in effect on the Closing Date.

2.4 The managements of WEM UK and WEM US will have sole discretion to decide whether or not any member of the WEM UK Group or the WEM US Group will supply goods, services or products to any member of the Time Warner Group (subject to certain existing agreements including those referred to in paragraph 3 below).

2.5 Neither Time Warner nor EMI will charge any cost to any member of the WEM UK Group or WEM US Group in respect of current or future share-based employee incentive plans. Neither Time Warner nor any of its Affiliates may grant any options to acquire shares of common stock or other equity incentives based upon the performance of any member of the Time Warner Group to any employee of any member of the WEM US Group or the WEM UK Group. Neither EMI nor any of its Affiliates may grant any options to acquire shares of common stock or other equity incentives based upon the performance of any member of the EMI Group to any employee of any member of the WEM US Group or the WEM UK Group. All equity incentives granted to officers or employees of the WEM UK or WEM US Group will be based upon the performance of the WEM Entities or any business unit thereof. (See further paragraph 9.7 of Part 10 of this document).

2.6 Certain transactions between Warner EMI Music and Time Warner will require the approval of EMI's shareholders (see paragraph 2.4 of Section A above) or of EMI (see paragraph 2.5 of Section A above).

2.7 Existing arrangements between any member of the WEM UK or WEM US Group and any member of the Time Warner Group, including those described in paragraph 3 below, for DVD manufacturing, video distribution, printing, publishing administration and soundtracks, will continue on their existing bases or otherwise as specified in paragraph 3 below. The arrangements described in paragraph 3 below and other existing arrangements (other than spot purchase arrangements) will be renegotiated in good faith (consistent with paragraphs 2.1 and 2.3 above) at the expiry of their contractual term or, where not subject to a fixed contractual term, after five years from their inception.

2.8 The principles referred to in paragraphs 2.1 and 2.5 above will apply to AOL and its subsidiaries after the consummation of the proposed AOL Time Warner merger.

2.9 EMI and Time Warner will allow the WEM Entities to formulate their business strategies and actions, including with regard to new media, on an independent stand-alone basis, as determined by the WEM UK Board, the WEM US Partners and the respective officers of WEM UK and WEM US.

2.10 Within each WEM Entity, administrative functions, including tax and treasury, will be run with equal regard to the interests of Time Warner and EMI, under the executive supervision and control of the management of such WEM Entity.

3. Agreements between Warner EMI Music and EMI or Time Warner after Closing

3.1 Time Warner Administrative Services Agreement

On the Closing Date, Warner EMI Music will enter into an Administrative Services Agreement with Time Warner under which Time Warner will provide at cost certain administrative and operating services, including accounting, tax, human resources, information technology, legal and risk management services. Each category of services will automatically terminate on specified termination dates ranging from between three and five years from the Closing Date, and each category of service will be terminable by Warner EMI Music upon designated periods of notice. The Agreement will be terminable by Time Warner on varying periods of notice depending on the type of service (but not less than 180 days) in the event that Time Warner owns less than 50 per cent. of Warner EMI Music.

The services are to be provided by Time Warner to Warner EMI Music in a manner that is substantially the same as the services provided by Time Warner to Warner Music Group prior to the Closing Date.

3.2 DVD licence agreements

On the Closing Date, Warner EMI Music will enter into a DVD licence agreement with Time Warner pursuant to which Time Warner will grant Warner EMI Music a licence to use certain patents owned by Time Warner or licensed to Time Warner under various cross licence agreements with third parties relating to the manufacture of DVD-Video, DVD-ROM, and DVD-Audio discs.

The licence royalty payable by Warner EMI Music to Time Warner will be at an arm's length market rate.

The agreement will remain in effect until the expiry of the last patent held by Time Warner, but is terminable by Warner EMI Music in the event that it can demonstrate that the licence of the patents under the cross licensing arrangement is no longer of financial benefit to it.

3.3 Warner trademark licences

(a) Warner Communications Inc. Trademark Licence Agreement

On the Closing Date, WEM UK and WEM US will enter into a trademark licence agreement with Warner Communications Inc. pursuant to which Warner Communications Inc. will grant WEM UK and WEM US an exclusive, worldwide, royalty-free licence to use the WARNER MUSIC trademark and three versions of the W Logo mark (as currently used by Warner Music Group) in connection with their operation of the Music Business.

The agreement is perpetual, unless terminated pursuant to to its terms. The quality control provisions require that Warner EMI Music meet the previous high standards of Warner Music Group and that all use of the trademarks be consistent with their prior use by Warner Music Group.

(b) Time Warner Entertainment Company, L.P. Trademark Licence Agreement

On the Closing Date, Warner Bros. Records Inc. and Warner/Chappell Music, Inc. will enter into a trademark licence agreement with Time Warner Entertainment Company, L.P. pursuant to which Time Warner Entertainment Company, L.P. will grant an exclusive, worldwide, royalty-free licence to Warner Bros. Records Inc. and Warner/Chappell Music, Inc. and their wholly-owned subsidiaries to use the WARNER BROS. RECORDS mark and the WB RECORDS Shield Design, WB MUSIC Shield Design and WB WARNER/CHAPPELL Shield Design marks in connection with their operation of the Music Business.

The agreement is perpetual, unless terminated pursuant to its terms. If Time Warner or its majority owned or controlled affiliates, collectively, own less than 30 per cent. of the equity in Warner EMI Music, the agreement terminates as to the Shield marks, but not as to the Warner Bros. Records mark. The quality control provisions require that Warner Bros. Records and Warner/Chappell meet the previous high standards of Warner Music Group and that all use of the trademarks be consistent with their prior use by Warner Music Group of the marks.

3.4 DVD manufacturing agreement

On 25 June 1998, Warner Home Video, a division of Time Warner Entertainment Company, L.P. ("WHV"), entered into an agreement with WEA Manufacturing, Inc., d/b/a Warner Advanced Media Operations ("WAMO") pursuant to which WHV granted to WAMO an exclusive right to manufacture any DVDs to be released by WHV, to be produced in the volumes specified by WHV. The right extends worldwide, and the term is five years. The price and other terms are determined on a yearly basis by good faith negotiations and, in accordance with paragraph 2.1 above, are to be arm's length as between independent third parties.

3.5 Warner Home Video order fulfilment and distribution services agreements

(a) On or before the Closing Date, WHV will enter into an agreement with Warner-Elektra-Atlantic Corporation for DVD order fulfilment and distribution services in the US, to expire no sooner than 24 June 2003.

(b) On 16 November 1998, Warner Entertainment Italia S.r.L. entered into an agreement with Warner Music Italia S.p.A. for order fulfilment and distribution services in Italy. The agreement is terminable by either party on six months' written notice effective as of the end of the then-current year of the term.

(c) As of 1 July 1992, Warner Home Video Espanola, S.A. entered into an agreement with Warner Music Spain S.A. for order fulfilment and distribution services in Spain. The agreement expires on 30 June 2002.

(d) On 24 April 1989, Warner Home Video France S.A. entered into an agreement with WEA Music, S.A. (predecessor to Warner Music France S.A.) for order fulfilment and distribution services in France. The agreement is terminable by any party on six months' written notice effective as of the end of the then-current year of the term.

(e) On 31 March 1995, Warner Home Video (U.K.) Limited entered into an agreement with Warner Music UK Limited for order fulfilment and distribution services in the UK. The agreement is terminable by either party on six months' written notice provided, however, that if notice is given which would otherwise cause the agreement to terminate in any month from September to January (inclusive), the term shall not expire until 1 February of the immediately succeeding year.

(f) On 6 November 1998, Warner Home Video GmbH entered into an agreement with Warner Music Manufacturing Europe GmbH for order fulfilment and distribution services in Germany commencing as of 12 January 1999. The agreement is terminable by either party on six months' written notice.

3.6 Warner/Chappell administration agreements

(a) As of 4 November 1998, Warner/Chappell Music, Inc. entered into an exclusive administration agreement with the publishing designees of New Line Cinema Corporation. The term of the agreement commenced on 2 May 1999 and continues thereafter until the later of 30 June 2002 or the end of the accounting period during which all advances are recouped, but in no event later than 30 June 2004.

(b) As of 1 January 1992, Warner/Chappell Music, Inc. and the music publishing designees of HBO entered into an exclusive administration agreement. The term of the agreement is terminable by any party at the end of a particular calendar year by notice given on or before 1 October of that year.

(c) As of 31 December 1991, HB Distribution Co. assigned to Turner Music Publishing, Inc. all of its rights and delegated to Turner Music Publishing, Inc. all of its duties under the administration agreement between HB Distribution Co. and Warner Chappell Music International Limited dated as of 20 December 1991 relating to musical compositions in the Hanna Barbera and Ruby Spears catalogues. Certain works related to Turner Network Television and World Championship Wrestling were added to the agreement as of 1 July 1997. The term of the agreement has been extended until 30 June 2001 and thereafter continues automatically for two-year periods unless any party gives notice 90 days before the term would otherwise expire.

(d) By agreement dated July 1998, effective as of 1 April 1989, Warner/Chappell Music, Inc. entered into an exclusive administration agreement with Lorimar Music Publishing, Inc., Warner Communications Inc., WB Music Corp., Warner-Tamerlane Publishing Corp. and W.B.M. Music Corp. for musical compositions owned or controlled by the television and motion picture operations of Lorimar and Warner Bros. On or before the Closing Date, the agreement will be modified to be for a fixed term ending ten years after the Closing Date, thereafter it will be renewable for terms of one year.

3.7 Warner Sunset soundtrack agreement

On 17 September 1996, Warner Music Group and Warner Sunset, a division of Warner Bros. which is itself a division of Time Warner Entertainment Company, L.P., entered into an agreement pursuant to which certain Warner Music Group record labels have a "first look" right with respect to soundtrack albums derived from Warner Bros. motion pictures. On or before the Closing Date, the agreement will be modified to be for a fixed term ending ten years after the Closing Date, thereafter it will be renewable for terms of one year.

3.8 New Line Cinema Corporation soundtrack agreement

On or before the Closing Date, Warner Music Group and New Line Cinema Corporation will enter into an agreement pursuant to which certain Warner Music Group record labels will have a "first look" right with respect to soundtrack albums derived from New Line motion pictures. The term of the "first look" right will end on 31 December 2003.

3.9 EMI services agreement

On the Closing Date, Warner EMI Music will enter into a services agreement with EMI under which Warner EMI Music will provide to EMI finance services (including preparation of Warner EMI Music financial statements in a form suitable for EMI), internal auditing services, taxation services, services in relation to the management of retained liabilities, treasury services, information technology support, human resources services and motor vehicle fleet management.

All the above services will be provided on an administrative basis, such that employees of Warner EMI Music will not make executive decisions in relation to them and will not be expected to take any actions which may cause them to be placed in a position of a conflict of interest between EMI and Warner EMI Music.

The fees payable by EMI will be the aggregate of total employment costs incurred by Warner EMI Music in the provision of the services together with an apportionment of overheads, and all out-of-pocket expenses. Certain accounting services, and some services relating to the provision of information, will not require any payment of fees by EMI since their provision is obligatory pursuant to the Combination Agreement.

The agreement will be for an indefinite term, but will be terminable by EMI on 12 months' notice, and by Warner EMI Music on a change of control of EMI, or upon EMI commencing any material business other than its interest in Warner EMI Music. The agreement will terminate automatically on EMI ceasing to have an interest in Warner EMI Music.

3.10 Credit facilities

WEM UK, WEM US and WEM Finance will be parties to certain credit facilities (see Section C below and paragraph 14 of Part 10 of this document for details).

C. WARNER EMI MUSIC'S FINANCING ARRANGEMENTS

1. WEM Finance will be the primary borrowing vehicle for Warner EMI Music and will on lend to WEM UK or WEM US, as appropriate. The subsidiaries of EMI and Time Warner which will hold their

respective interests in Warner EMI Music will guarantee, jointly and severally, WEM Finance's borrowings. In this way, Warner EMI Music should be able to finance itself in the bank and capital markets on the basis of its aggregate financial strength.

2. The initial financing arrangements for Warner EMI Music will consist of:

   (i) newly arranged revolving bank facilities totalling $4,500 million;

   (ii) intercompany revolving credit facilities from Time Warner in the amount of $1,500 million on a subordinated basis and £150 million on a senior basis pari passu with the bank facilities referred to in (i) above; and

   (iii) the existing Capitol Records, Inc. $500 million $8\frac{3}{8}$ per cent. guaranteed notes due 2009 guaranteed by EMI (see paragraph 15.1(h) of Part 10 of this document).

   Further details in respect of Warner EMI Music's financing arrangements are set out in paragraph 14 of Part 10 of this document.

3. WEM Finance is a US limited partnership under the Delaware Revised Uniform Limited Partnership Act and is the subject of a limited partnership agreement dated 19 May 2000 between subsidiaries of EMI and Time Warner, respectively, with each having a 50 per cent. interest. That partnership agreement provides for WEM Finance to be managed by a subsidiary of Time Warner as general partner, but actions by the partnership require the approval of a subsidiary of EMI. No partner has any obligations to make capital contributions to WEM Finance. The partnership agreement will be amended with effect from Closing so that its provisions are consistent with the provisions of the WEM US Partnership Agreement outlined in Section A above.

4. In respect of certain matters agreed between EMI and Time Warner in relation to WEM Finance, see paragraph 12 of Section A of this Part 8.

Part 9 — Further Details of the Combination

A. SUMMARY OF THE TERMS OF THE COMBINATION AGREEMENT

1. Formation of Warner EMI Music

1.1 EMI and Time Warner have agreed to create two entities to conduct their music businesses throughout the world. One, WEM US, will be a Delaware general partnership that will operate principally in the US, Japan and Canada. The other, WEM UK, will be a company incorporated and registered in England and Wales that will operate principally in the UK and other countries outside the US, Canada and Japan. Each of EMI and Time Warner will indirectly own 50 per cent. of the equity in each of WEM US and WEM UK.

1.2 EMI will contribute to Warner EMI Music all of the businesses and assets which are owned, held, leased, licensed or used by EMI other than the EMI Retained Assets defined in paragraph 1.3 below (the "EMI Contributed Assets").

1.3 EMI will retain certain assets after Closing (the "EMI Retained Assets") including: (i) the cash referred to in paragraph 1.12 below; (ii) the investments in HMV Media, VIVA, Channel V and the internet companies referred to in Section C of Part 3 of this document; (iii) certain non-Music Business patents and all non-Music Business trademarks; (iv) interests in and rights in respect of, and certain properties relating to, non-Music Businesses disposed of prior to Closing; (v) certain other corporate properties and assets; (vi) rights to repayment of tax in respect of prior years; (vii) rights under the Combination Agreement and certain other documents in connection with the Combination; (viii) all accounts receivable between EMI and any entity not contributed by EMI to Warner EMI Music; (ix) all agreements, rights and interests related to EMI's shareholding in HMV Media; and (x) the right to use the word "EMI" as part of the corporate name "EMI Group plc" (but not in any other name or way).

1.4 Time Warner will contribute to Warner EMI Music all of the business and assets which are owned, held, leased, licensed or used by the Time Warner Group primarily in the conduct of the Warner Music Business other than the Time Warner Retained Assets referred to in paragraph 1.6 below (the "Time Warner Contributed Assets").

1.5 The Time Warner Contributed Assets include the record labels business called "Atlantic Recording Corporation", "Elektra Entertainment Group Inc." and "Warner Bros. Records Inc." (and affiliated labels) and the music publishing business conducted under the name "Warner/Chappell Music, Inc.".

1.6 The assets to be retained by Time Warner (the "Time Warner Retained Assets") include: (i) certain patents relating to the manufacturing of DVDs; (ii) investments in ARTISTdirect, VIVA and Channel V; (iii) the right to use the name "Time Warner"; (iv) the right to use the name "Warner" outside the Music Business ; (v) the right to continue to use outside the Music Business assets used by Time Warner (although not primarily) outside the Warner Music Business; (vi) Time Warner's rights under the Combination Agreement and certain other agreements in connection with the Combination; and (vii) copyrights administered by Warner Music Group on behalf of certain Time Warner film and television studios.

1.7 Except for certain non-Music Business liabilities to be retained by EMI, Warner EMI Music will assume all debts, liabilities, obligations and commitments of the EMI Group to the extent arising out of the EMI Contributed Assets, the EMI Music Business (as defined in paragraph 6.3 below) or any Music Business formerly owned or conducted by EMI (or its present or former subsidiaries), including all Financial Indebtedness (as defined in paragraph 1.8 below) of EMI and its subsidiaries at Closing and additional Financial Indebtedness of EMI incurred to obtain the cash referred to in paragraph 1.12 below (the "EMI Contributed Liabilities").

1.8 "Financial Indebtedness" means indebtedness or obligations relating to: (i) borrowed money; (ii) instruments such as bonds, debentures, notes, bills of exchange and commercial paper; (iii) deferred consideration; (iv) capital lease obligations; and (v) interest rate protection agreements.

1.9 Except for certain liabilities to be retained by Time Warner, Warner EMI Music will assume all debts, liabilities, obligations and commitments of, to the extent arising out of the Time Warner Contributed

Assets, the Warner Music Business or any former businesses, operations or assets relating to the Music Business formerly owned or conducted by Time Warner (or its present or former subsidiaries) under the overall divisional name "Warner Music Group" (the "Time Warner Contributed Liabilities"), provided that the Net Financial Indebtedness (as defined in paragraph 1.10 below) of Time Warner, its subsidiaries and Warner Music Group to be assumed by Warner EMI Music will be an amount calculated by reference to paragraph 1.13 below.

1.10 "Net Financial Indebtedness" means Financial Indebtedness less cash and marketable securities.

1.11 Warner EMI Music will also assume at Closing the Assumed Tax Liabilities of EMI and Warner Music Group. "Assumed Tax Liabilities" is defined to include: (i) tax liabilities arising out of the ordinary course conduct of the Warner Music Business (except with respect to the Time Warner Retained Assets) and the EMI Music Business (except with respect to the EMI Retained Assets) (as appropriate); and (ii) transfer taxes arising on the Combination.

1.12 In addition to the subscription proceeds from Time Warner for the Convertible Deferred Shares, EMI will retain at Closing cash equal to the aggregate of: (i) £15 million; (ii) EMI's estimate of its final dividend for the year to 31 March 2000 (unless already paid); (iii) EMI's estimate of its unpaid out-of-pocket expenses (including certain tax liabilities) relating to the Combination; (iv) approximately £392 million (being the estimated amount of the Special Cash Payment less the subscription proceeds from the Convertible Deferred Shares); (v) the current portion of the aggregate provision for tax liabilities with respect to entities contributed by EMI to Warner EMI Music for which EMI or one of its retained subsidiaries is the primary obligor; and (vi) any unpaid tax incurred in connection with the pre-Closing disposal of EMI's shareholding in GWR Group PLC or any other EMI Retained Asset.

1.13 Except as referred to in paragraphs 1.7 and 1.12, EMI will contribute all of its debt and cash at Closing to Warner EMI Music. Time Warner will be entitled to contribute debt equal to £928.9 million (being an amount equivalent to EMI's net indebtedness as at 30 September 1999) less the difference between the amount of the Special Cash Payment (approximately £790 million) and the amount paid to EMI by Time Warner for the Convertible Deferred Shares (approximately £398 million) and less a further $119 million. Other adjustments will be made to Time Warner's debt contribution to reflect the principle that movements in cash in both EMI Music and Warner Music Group since 30 September 1999 are for the account of Warner EMI Music.

1.14 EMI Contributed Assets and Time Warner Contributed Assets relating primarily to the conduct of business in the US, Canada and Japan will be contributed to WEM US. All other relevant EMI Contributed Assets and Time Warner Contributed Assets will be contributed to WEM UK. All liabilities, other than Financial Indebtedness, that primarily arise out of assets that are contributed to WEM US will be assumed by WEM US (or its subsidiaries), and all other contributed liabilities, other than Financial Indebtedness, will be assumed by WEM UK (or its subsidiaries).

1.15 EMI and Time Warner each intend that the fair market value of the EMI Contributed Assets and the Time Warner Contributed Assets respectively (on the basis of their expected contribution to the EBITDA of Warner EMI Music) net of the EMI Contributed Liabilities and the Time Warner Contributed Liabilities respectively (respectively, their "Contributed Amounts"), will be equal, subject to paragraphs 1.12 and 1.13 above. Subject to various adjustments, to the extent that the Contributed Amounts of EMI and Time Warner differ, they will be equalised by either: (i) the contribution, or retention of cash, receivables or other liquid assets; and/or (ii) the allocation of the amount of the EMI Contributed Liabilities and the Time Warner Contributed Liabilities; and/or (iii) other tax efficient means. However, such equalisation will not reduce the Contributed Amount of either EMI or Time Warner.

1.16 The amount of cash to be retained by EMI at Closing, and the amount of Net Financial Indebtedness to be contributed by Time Warner at Closing, will initially be based upon pre-Closing estimates, but will be subject to subsequent adjustment payments after Closing once final calculations have been certified.

1.17 Within 60 days after Closing, EMI will distribute the Special Cash Payment to its shareholders. Further details in respect of the Special Cash Payment are set out in Part 2 of this document.

1.18 EMI and Time Warner will enter into detailed contribution agreements to effect the transfer of assets and liabilities to Warner EMI Music pursuant to the Combination Agreement.

2. Convertible Deferred Shares

2.1 EMI will issue the Convertible Deferred Shares to Time Warner on Closing in exchange for cash.

2.2 Further details in respect of the Convertible Deferred Shares are set out in Section B below.

3. Conditions

3.1 The obligations of EMI and Time Warner to effect the Combination will be subject to the satisfaction or mutual waiver of the following conditions:

(a) all filings required by law being made prior to Closing and all consents, approvals and authorisations required to be obtained prior to Closing by either party from any governmental authority responsible for the enforcement of anti-trust or foreign investment law of the US, the EU, Canada or Japan (a "Specified Government Authority") in order to complete the transactions contemplated by the Combination Agreement and certain other agreements in connection with the Combination (the "Transactions") having been made or obtained;

(b) the absence of any pending litigation by a Specified Government Authority challenging any Transaction;

(c) EMI shareholder approval having been obtained at the Extraordinary General Meeting (or any adjournment thereof);

(d) the consent of HM Treasury under UK tax legislation (or such similar consents as are required in any jurisdiction elsewhere) having been obtained insofar as such consent is required in relation to the formation of either WEM UK or WEM US;

(e) no provision of any applicable law or regulation and no judgment, injunction, order or decree prohibiting Closing the violation of which would cause an EMI Material Adverse Effect or a Warner Material Adverse Effect or a Warner EMI Music Material Adverse Effect (in each case, as defined in paragraph 3.2 below). The violation of any injunction prohibiting the Transactions issued by request of any Specified Governmental Authority will be deemed for these purposes to result in a material adverse effect of the type described in this paragraph 3.1(e);

(f) save as referred to in paragraph 3.5 below, all consents and approvals from third parties necessary for the Transactions having been obtained in form and substance reasonably satisfactory to EMI and Time Warner, and not revoked (other than consents and approvals the lack of which, in the aggregate, would not have a Warner EMI Music Material Adverse Effect); and

(g) EMI continuing to qualify for listing on the Official List and for trading on the London Stock Exchange.

3.2 "EMI Material Adverse Effect" and "Warner Material Adverse Effect" mean with respect to each of EMI and Time Warner (as the case may be) a material adverse effect on its business, assets, results of operations or prospects, or something which materially impairs ability to consummate the Combination, provided that such effect is not caused by: (i) the economy in general; (ii) the Combination Agreement or the transactions contemplated by it; (iii) the music industry in general; or (iv) the timing of new product releases. "Warner EMI Music Material Adverse Effect" means a material adverse effect on the condition (financial or otherwise), business, assets, results of operations or prospects of Warner EMI Music.

3.3 The obligations of EMI to consummate the Closing will be subject to the satisfaction of, or waiver by EMI of, the following further conditions:

(a) Time Warner having performed in all material respects all of its material obligations under the Combination Agreement required to be performed by it on or prior to Closing and the representations and warranties of Time Warner contained in the Combination Agreement (and in any certificate or other writing delivered by Time Warner pursuant to the Combination Agreement) being true at and as of Closing;

(b) certain UK tax clearances in respect of the Transactions having been obtained; and

(c) no Warner Material Adverse Effect having occurred and being continuing.

3.4 The obligations of Time Warner to consummate the Closing will be subject to the satisfaction of, or waiver by Time Warner of, the following conditions:

(a) EMI having performed in all material respects all of its material obligations under the Combination Agreement required to be performed by it on or prior to Closing and the representations and warranties of EMI contained in the Combination Agreement and in any certificate or other writing delivered by EMI pursuant to the Combination Agreement being true at and as of Closing;

(b) certain UK tax clearances in respect of the Transactions having been obtained; and

(c) no EMI Material Adverse Effect having occurred and being continuing.

3.5 If the conditions referred to above have been satisfied or waived but the consummation of the Closing with respect to certain assets ("Affected Assets") is prohibited for legal or regulatory reasons, the Closing will be consummated with respect to assets other than the Affected Assets with such adjustments as the parties shall in good faith have negotiated in respect of and to reflect such arrangements. The Combination Agreement provides for the contribution of Affected Assets after the Closing Date once it becomes possible.

4. Representations and warranties

4.1 The Combination Agreement contains certain customary representations and warranties by EMI to Time Warner and by Time Warner to EMI.

4.2 These representations and warranties will not survive Closing.

5. Employee matters

5.1 The contracts of employment of all employees of Time Warner and its subsidiaries engaged principally in the Warner Music Business, and all employees of EMI and its subsidiaries, other than those employees which EMI specifies in writing (the "EMI Retained Employees"), will be transferred to WEM US and WEM UK (together the "Transferring Employees"). All relevant employment-related liabilities will be assumed by WEM US and WEM UK at Closing.

5.2 The contractual rights of Transferring Employees and former employees of the Warner Music Business and the EMI Music Business will be preserved. However, subject to such contractual rights, there shall be no obligation on Warner EMI Music to maintain any arrangement applicable to any such employee.

5.3 EMI and Time Warner will co-operate to satisfy applicable employee information and consultation obligations within the EU.

5.4 WEM UK will indemnify EMI and Time Warner against any liabilities arising in relation to the employees of Time Warner and its subsidiaries engaged in the Warner Music Business, or of EMI and its subsidiaries (other than the EMI Retained Employees), but who are not employed by companies included in the EMI Contributed Assets or the Time Warner Contributed Assets at Closing or which are attributable to any breach or default by EMI or Time Warner or any of their affiliated companies or WEM UK or any of its affiliated companies in relation to such employees. Where such employees (employed outside the US, Canada or Japan) do not automatically transfer to WEM UK, WEM UK will immediately offer such employees employment on terms and conditions which are no less favourable than those on which they would have been employed if their contracts had automatically transferred.

5.5 EMI and Time Warner will co-operate so as to determine the treatment of their existing employee plans (which include bonus, profit sharing, stock option, health insurance and retirement plans), and any assets thereof, with the goal of establishing appropriate employees' benefits and arrangements for

Warner EMI Music and so as to provide the proper and adequate funding of these arrangements and minimising the costs associated therewith.

5.6 To the extent permitted by law, all holders of equity incentive awards will retain such awards, and service with EMI or Time Warner will count as service with Warner EMI Music. Warner EMI Music will not be responsible for the costs of any equity incentive awards made prior to the Closing. After the Closing, any equity incentives granted to Warner EMI Music employees will be based only on the performance of Warner EMI Music. Warner EMI Music may use the EMI share price as a measure of performance. See paragraph 2.5 of Section B of Part 8 of this document and paragraph 9.7 of Part 10 of this document.

5.7 For a reasonable period after Closing, and to the extent permissible, Time Warner and EMI will continue, at Warner EMI Music's expense, to provide employee benefit related administrative and claims processing services, welfare benefit insurance coverage and coverage and participation in employee benefit arrangements, for those Warner EMI Music employees formerly employed by the EMI or Time Warner groups to effect a smooth transition to the plans of Warner EMI Music.

5.8 In respect of the UK EMI Group Pension Fund (the "EMI UK Fund") and subject to Inland Revenue and trustee approval, EMI and Time Warner will endeavour to ensure EMI remains the principal employer with the same powers as applied prior to Closing. Following Closing, and until WEM UK ceases to be a joint venture between EMI and Time Warner (or earlier agreement), EMI and Time Warner will endeavour to ensure EMI subsidiaries and associates which are EMI Contributed Assets and which participate in the EMI UK Fund at Closing are permitted to continue to participate on the same terms as before. The trustees of the EMI UK Fund and the Inland Revenue may impose restrictions on such participation.

5.9 If the above arrangements are not permitted, EMI and Time Warner will endeavour to ensure that WEM UK, or an affiliated company, becomes principal employer of the UK Fund and that EMI subsidiaries and associates which are EMI Contributed Assets continue to participate on the same terms as before. If requested by EMI, EMI and Time Warner will endeavour to ensure EMI is also permitted to continue to participate in the EMI UK Fund on the same terms as apply to other participating employers, or in default of which, a transfer is made on a share of fund basis to a new EMI pension fund for EMI Retained Employees.

5.10 Subject to Inland Revenue approval, EMI will, if requested by WEM UK, request the trustees of the EMI UK Fund to consider admitting to participation other employers in the WEM UK group on the same terms as apply to other participating employers, or otherwise as agreed, and subject to such conditions as the trustees may impose.

6. Covenants

6.1 Each of EMI and Time Warner has given certain customary covenants to the other in respect of the period from the date of the Combination Agreement to Closing in relation to, among other things; (i) its efforts to consummate the Transactions; (ii) exclusivity restrictions in relation to third party proposals; and (iii) the conduct of its Music Business including that it will be conducting its Music Business in the ordinary course consistent with past practice.

6.2 EMI has agreed that, prior to Closing it will (except with respect to activities within the EMI Music Business), not engage in any business activities other than its ownership of the EMI Music Business and its ownership of the EMI Retained Assets. EMI has further agreed that its aggregate investment in and equity ownership percentage in any such EMI Retained Asset will not exceed the levels existing at the date of the Combination Agreement, except that EMI may contribute up to £100 million additional investment in any EMI Retained Asset that is a minority investment so long as EMI's fully diluted ownership percentage therein does not increase.

6.3 "EMI Music Business" means the Music Business currently conducted by EMI other than EMI Retained Assets and EMI Retained Liabilities (as defined in paragraph 8.3 below).

6.4 EMI has further agreed that it will not prior to Closing: (i) issue any equity securities or securities convertible into equity securities, except with respect to certain employee stock options; (ii) incur any financial indebtedness unless such indebtedness is either repayable at any time without penalty (other than LIBOR breakage) or is less than £50 million; and (iii) will not enter into agreements that can be terminated by the other party thereto if a particular employee of EMI should cease to be an employee of EMI or a change of control of EMI should occur.

6.5 Warner EMI Music will provide EMI with such reasonable co-operation as may be necessary to assist EMI in complying with the Listing Rules insofar as they are applied through EMI to Warner EMI Music and EMI's interests in Warner EMI Music.

7. Termination and termination fees

7.1 The parties have agreed that the Combination Agreement will terminate upon the occurrence of any of the following events:

(a) upon notice by either party if the other party has breached in any material respect any of its material obligations under its covenants referred to in paragraph 6 above (other than the exclusivity obligations referred to in paragraph 6.1(ii) above) and the party in breach fails to cure the breach within 30 days thereafter;

(b) upon notice by either party if the other party breaches in any material respect its exclusivity obligations referred to in paragraph 6.1(ii) above;

(c) by Time Warner if the EMI Board withdraws its recommendation of the Transactions or fails publicly to reaffirm its recommendation of the Transactions within 45 days of being requested by Time Warner to do so (in certain circumstances) or if the EMI Board recommends that the EMI shareholders accept a publicly announced Competing EMI Proposal (as defined in paragraph 7.2 below);

(d) by either party if EMI shareholder approval is not obtained at the Extraordinary General Meeting (or any adjournment thereof);

(e) upon notice by either party if the other party undergoes a Change of Control (as defined in paragraphs 6.3 and 6.4 of Section A of Part 8 of this document); or

(f) upon notice by either party if the Combination has not closed by 31 January 2001.

7.2 "Competing EMI Proposal" means a bona fide publicly announced proposal from a third party unaffiliated with Time Warner, relating to a transaction which would either: (i) cause a Change of Control of EMI; or (ii) cause the issuance by EMI of equity securities in excess of 30 per cent. of its total equity securities in consideration for the purchase of assets or securities of another entity.

7.3 EMI will be obliged to pay £55 million to Time Warner if:

(a) the Combination Agreement is terminated by Time Warner pursuant to paragraphs 7.1(b), (c) or (e) above; or

(b) if the Combination Agreement is terminated pursuant to paragraph 7.1(d) above and at the time of the Extraordinary General Meeting a Competing EMI Proposal is pending and within one year following such termination either EMI signs a definitive agreement relating to a Competing EMI Proposal or a Competing EMI Proposal is consummated.

7.4 Time Warner will be obliged to pay £55 million to EMI if the Combination Agreement is terminated by EMI pursuant to paragraphs 7.1(b) or (e) above.

8. Indemnities

8.1 Following the Closing:

(a) Time Warner will indemnify WEM UK and WEM US (and their respective subsidiaries) against all damage, loss, liability and expense, other than with respect to taxes, incurred or suffered by them arising out of any Time Warner Retained Liability (as defined in paragraph 8.2 below) or any breach of covenant or agreement made or to be performed by Time Warner pursuant to the Combination Agreement;

(b) EMI will indemnify each of WEM UK and WEM US (and their respective subsidiaries) against any and all damage, loss, liability and expense, other than with respect to taxes, incurred or suffered by them arising out of EMI Retained Liabilities (as defined at paragraph 8.3 below) or any breach of covenant or agreement made or to be performed by EMI pursuant to the Combination Agreement; and

(c) each of EMI and Time Warner will indemnify WEM US and the WEM UK (and their respective subsidiaries) against the Retained Tax Liabilities (as defined in paragraph 8.3 below) of EMI or Time Warner, respectively, and any damages arising out of or incident to such Retained Tax Liabilities.

8.2 "Time Warner Retained Liabilities" means all liabilities of Time Warner other than the Time Warner Contributed Liabilities, including all costs relating to the exercise of rights or benefits under Time Warner stock options or other share incentive arrangements granted prior to Closing.

8.3 "EMI Retained Liabilities" means all liabilities of EMI other than the EMI Contributed Liabilities, including all liabilities, obligations and commitments relating to (a) non-Music Businesses previously owned or operated by EMI and since disposed of, (b) all accounts payable between EMI and any subsidiaries not being contributed to Warner EMI Music and (c) the exercise of rights to or benefits under the EMI share option or other share incentive arrangements granted prior to Closing. "Retained Tax Liabilities" means any tax liability which is not an Assumed Tax Liability (as defined in paragraph 10.3 of Section A of Part 8 of this document).

8.4 The indemnities referred to in this paragraph 8 are not subject to a cap on liability.

B. SUMMARY OF THE TERMS OF THE SUBSCRIPTION AND OPTION AGREEMENT AND THE CONVERTIBLE DEFERRED SHARES

1. Introduction

1.1 Under the Subscription and Option Agreement, Time Warner has agreed to subscribe for, and EMI has agreed to issue to Time Warner, at Closing 69,230,952 Convertible Deferred Shares (subject to adjustment for EMI Ordinary Shares issued, or options granted over EMI Ordinary Shares, in the period between 23 January 2000 and Closing), at a price per Convertible Deferred Share of £5.75. The aggregate subscription price will be £398,077,974 (subject to adjustment) and will be payable by Time Warner on Closing.

1.2 The Convertible Deferred Shares will carry the rights and restrictions set out in the new Articles of Association of EMI to be adopted at the Extraordinary General Meeting. A summary of those rights is set out below.

2. Conversion rights

2.1 The Convertible Deferred Shares will be automatically converted into fully-paid EMI Ordinary Shares in the event (the "Conversion Event") that the closing middle market price of an EMI Ordinary Share as derived from the Daily Official List of the London Stock Exchange is at or in excess of a specified trigger level (the "Trigger Level") for any period of 15 Trading Days out of 30 consecutive Trading Days during the period beginning on the Closing Date and ending on the date three and a half years after the Closing Date (the "Maturity Date").

2.2 The Trigger Level will be (a) £10 prior to the dealing day on which EMI Ordinary Shares are quoted ex-the right to the Special Cash Payment and (b) £9 thereafter. The Trigger Level will be subject to adjustment as referred to in paragraph 2.5 below.

2.3 "Trading Day" means (subject to paragraph 6.2 below) a day on which EMI Ordinary Shares are able to be traded on the London Stock Exchange (a "dealing day") except any dealing day on which Time Warner has purchased any EMI Ordinary Shares and either (a) the 10 dealing days immediately following any such purchase or (b) where the price per EMI Ordinary Share paid pursuant to such purchase exceeds 93.75 per cent. of the Trigger Level then prevailing, the 30 dealing days immediately following any such purchase.

2.4 The Convertible Deferred Shares will be convertible at the rate of one EMI Ordinary Share for each Convertible Deferred Share (the "Conversion Rate"). The Conversion Rate, and accordingly the number of EMI Ordinary Shares which Time Warner would receive on conversion of the Convertible Deferred Shares, will be subject to adjustment as referred to in paragraph 2.5 below.

2.5 There are mechanisms included in the rights attaching to the Convertible Deferred Shares designed to protect the holder of the Convertible Deferred Shares against dilution of such holders' interest in EMI in the event of certain corporate actions by EMI by adjustment of the Trigger Level and the Conversion Rate. In addition, on the occurrence of an event not specifically contemplated in the rights attaching to the Convertible Deferred Shares as set out in the proposed new articles of association, the holder of the Convertible Deferred Shares may (unless EMI has previously done so in respect of such event) require EMI to instruct an independent firm of internationally recognised chartered accountants to opine as to the appropriate modification, extension or other adjustment (if any) which should be made to the conversion mechanism in order to reflect the principle that the holder is entitled to 8 per cent. of the fully diluted (including for the Convertible Deferred Shares) ordinary share capital of EMI as at the Closing Date at a Trigger Level of £9 (or £10 prior to the dealing day on which the EMI Ordinary Shares are quoted ex the entitlement to the Special Cash Payment) per EMI Ordinary Share (before any adjustment) and that such entitlement should only be diluted by an offer of securities for subscription whether in cash or otherwise at not less than 95% of the current market price (and by the effect of the Special Cash Payment). EMI will implement any such adjustment.

3. Income, capital and voting rights

3.1 The holder of the Convertible Deferred Shares will have no right to participate in any distribution of income or profits by EMI.

3.2 The Convertible Deferred Shares will not be redeemable save as referred to in paragraph 5 below.

3.3 On a return of capital on a winding up of EMI the holder of Convertible Deferred Shares will be entitled to participate in the surplus assets of EMI with the holders of EMI Ordinary Shares in proportion to the aggregate of the nominal capital paid-up on the Convertible Deferred Shares, up to a maximum amount on the Convertible Deferred Shares equal to the aggregate amount (including premium) paid on the issue of the Convertible Deferred Shares (see paragraph 1 above).

3.4 The holder of Convertible Deferred Shares will be entitled to receive notice of, and attend, but not vote at, any general meeting of EMI. Notwithstanding this, if the business of a general meeting includes the consideration of a resolution for the winding-up of EMI, or any resolution to vary, modify, alter or abrogate the rights attaching to EMI Ordinary Shares and/or the Convertible Deferred Shares, the holder of the Convertible Deferred Shares will be entitled to vote at such meeting, but only in relation to such resolutions. In such circumstances, a holder of Convertible Deferred Shares will be entitled to exercise one vote on a show of hands, and on a poll, such number of votes as is equal to the number of EMI Ordinary Shares to which such holder would be entitled if a Conversion Event had then occurred.

4. Rights on a takeover of EMI

4.1 In the event that either: (i) an offer is made to all (or as nearly as may be practicable all) holders of EMI Ordinary Shares by a person who is not a holder of Convertible Deferred Shares to acquire the whole or any part of the issued ordinary share capital of EMI; or (ii) any person who is not a holder of Convertible Deferred Shares proposes a scheme with regard to such acquisition, and EMI becomes aware that as a result the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting have or will become vested in the offeror, EMI will be obliged to notify the holder of the Convertible Deferred Shares in writing.

4.2 Upon any such offer becoming or being declared wholly unconditional, or upon any such scheme being approved by the court, the holder of the Convertible Deferred Shares will become entitled to convert all (not some only) of its Convertible Deferred Shares into fully paid EMI Ordinary Shares at the Conversion Rate then effective save that the number of EMI Ordinary Shares to which the holder would otherwise be entitled will be adjusted by being multiplied by the value of the offer or scheme per EMI Ordinary Share multiplied by:

(a) 0.75 if the offer or scheme is announced on or before the first anniversary of Closing; or

(b) 0.5 if the offer or scheme is announced after the first anniversary of Closing, but before the second anniversary of Closing; or

(c) 0.25 if the offer or scheme is announced after the second anniversary of Closing;

in each case divided by the Trigger Level then prevailing.

5. Redemption on the Maturity Date

In the event that no Conversion Event has occurred before the Maturity Date, EMI will redeem all of the outstanding Convertible Deferred Shares in full for an aggregate sum of £1 payable to the holder of the Convertible Deferred Shares.

6. Miscellaneous provisions

6.1 EMI has agreed that, prior to the Maturity Date, EMI and its affiliates will not make any public statement with the intention of causing the conversion of the Convertible Deferred Shares not to occur.

6.2 Time Warner has agreed that if, prior to the Maturity Date, Time Warner or its affiliates and agents make any public statement with the intention of causing the conversion of the Convertible Deferred Shares to be artificially achieved or directly in respect of the price of EMI Ordinary Shares, the date of such statement or announcement and the 30 dealing days immediately thereafter will not be counted as Trading Days for the purpose of ascertaining whether conversion of the Convertible Deferred Shares has been triggered.

6.3 The Convertible Deferred Shares will not be transferable by Time Warner (other than, in certain circumstances, intra-group) except where such transfer is contemporaneous with the transfer of all of its interests in Warner EMI Music to the transferee, and provided that it complies with all further requirements set out in the Transaction Documents.

6.4 EMI has covenanted to Time Warner that the occurrence of any of the following will be deemed to constitute a variation of the class rights attaching to the Convertible Deferred Shares, and accordingly, will require Time Warner's approval in that context: (i) a distribution in specie of any interest in Warner EMI Music by EMI; (ii) an EMI resolution for the voluntary winding up of EMI; (iii) an EMI resolution to vary rights attaching to EMI Ordinary Shares; (iv) an EMI resolution to authorise a share buyback when the price is above 93.75 per cent. of the Trigger Level (see paragraph 2.2 above); (v) anything which would result in the issue of EMI Ordinary Shares at a discount to their par value on conversion of the Convertible Deferred Shares; or (vi) the consolidation or sub-division of the Convertible Deferred Shares.

6.5 The Convertible Deferred Shares will not be listed on any stock exchange.

7. The Time Warner Option to subscribe for EMI Ordinary Shares

7.1 Pursuant to the Subscription and Option Agreement, in the event that no Conversion Event has occurred before the Maturity Date, for a period of one month following the Maturity Date, Time Warner will have the right to exercise an option to subscribe for EMI Ordinary Shares up to a maximum number equal to the aggregate number of EMI Ordinary Shares which would have arisen on conversion of all of the Convertible Deferred Shares had they been converted on the Maturity Date at the then prevailing Conversion Rate (as the same may have been adjusted as referred to above).

7.2 The subscription price per EMI Ordinary Share payable by Time Warner pursuant to the exercise of the Time Warner Option would be an amount equal to the Trigger Level then prevailing (as the same may have been adjusted as referred to above).

Part 10 — Additional Information

1. RESPONSIBILITY

1.1 The EMI Directors, whose names are set out in paragraph 5 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the EMI Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

1.2 The Proposed WEM Directors and Officers, whose names are set out in paragraph 5 below, accept responsibility for the information contained in this document relating to Time Warner, Warner Music Group, EMI Music, Warner EMI Music, themselves and members of their immediate families and related trusts. To the best of the knowledge and belief of the Proposed WEM Directors and Officers (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they take responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. INCORPORATION AND ACTIVITY OF EMI

2.1 EMI was incorporated on 29 March 1928 in England under the Companies Acts 1908 to 1917 with registered number 229231 under the name The Electric Lamp Service Company, Limited. The name of EMI was changed to Thorn Electrical Industries Limited on 26 November 1936, and to THORN EMI Limited on 3 March 1980. Pursuant to a directors' resolution the designation of EMI was changed from THORN EMI Limited to THORN EMI plc on 5 June 1981, and the name of EMI was changed to EMI Group plc on 19 August 1996. The principal legislation under which EMI operates is the Act.

2.2 The registered and head office of EMI is 4 Tenterden Street, Hanover Square, London W1A 2AY.

2.3 Ernst & Young of Becket House, 1 Lambeth Palace Road, London SE1 7EU are the auditors of EMI and they and their predecessors have acted in that capacity since 1928.

3. SHARE CAPITAL OF EMI

3.1 The authorised, issued and fully paid share capital of EMI as at 30 May 2000 (being the latest practicable date prior to the publication of this document) was as set out below:

Authorised			Issued	
Number	Amount (£)	Class	Number	Amount (£)
1,134,206,498	158,788,909.72	EMI Ordinary Shares of 14p each	788,486,740	110,388,143.60
419,054,387	479,817,273.115	B shares of 114.5p each	Nil	Nil
3,500,000,000,000	17,500,000.00	Deferred shares of 0.0005p each	Nil	Nil
	656,106,182.835			110,388,143.60

3.2 As at 30 May 2000 (being the latest practicable date prior to the publication of this document), the following options over EMI Ordinary Shares were outstanding under the Employee Share Schemes and the following share right awards granted on 10 December 1999 were outstanding under the EMI Group Senior Executive Incentive Plan:

(a) *1984 THORN EMI Executive Share Option Scheme*

Date of grant	No. of shares	Exercise price (p)	Exercise dates from	Exercise dates to
28 August 1992	1,576	263.155	28.8.95	27.8.02
28 August 1992	52,500	342.000	28.8.95	27.8.02
23 July 1993	40,000	466.500	23.7.96	22.7.03
23 July 1993	44,288	368.655	23.7.96	22.7.03
23 July 1993	91,131	370.235	23.7.96	22.7.03
22 July 1994	252,000	534.000	22.7.97	21.7.04
22 July 1994	44,286	421.995	22.7.97	21.7.04
22 July 1994	178,420	423.970	22.7.97	21.7.04

(b) *1995 EMI Group Executive Share Option Scheme*[(i)] *and EMI Group Senior Executive Incentive Plan*

Date of grant	No. of shares	Exercise price (p)	Exercise dates from	Exercise dates to
25 August 1995	512,700	747.000	25.8.98	24.8.05
25 August 1995	33,400[(ii)]	747.000	25.8.98	24.8.05
25 August 1995	738,350	590.315	25.8.98	24.8.05
23 August 1996	241,092	14.000	(iii)	22.8.03[(iii)]
23 August 1996	1,789,174	734.500	23.8.99	22.8.06
20 December 1996	38,000	734.500	20.12.99	19.12.06
6 June 1997	1,215,350	575.000	6.6.00	5.6.07
5 June 1998	267,044	510.000	5.6.01	4.6.08
5 June 1998	201,581	531.500	5.6.01	4.6.08
3 June 1999	285,000	440.000	3.6.02	2.6.09
10 December 1999	491,420	579.300	10.12.02	9.12.09
10 December 1999	489,260	614.000	10.12.02	9.12.09
10 December 1999[(iv)]	34,523[(ii)]	579.300	10.12.02	9.12.09
10 December 1999[(iv)]	52,698[(ii)]	614.000	10.12.02	9.12.09

Notes:

(i) Exercise of the options is normally subject to the achievement of performance criteria. Certain options will be exercisable as a result of the Combination. The effect of the Combination on the Employee Share Schemes is described in paragraphs 9.2 to 9.6 below.

(ii) To be satisfied by the transfer of shares from the EMI Group General Employee Benefit Trust rather than the issue of new shares.

(iii) These options are linked to and can only be exercised in conjunction with options issued under the 1984 Thorn EMI Executive Share Option Scheme or granted on 25 August 1995 under the 1995 EMI Group Executive Share Option Scheme. On 23 August 1996, the then existing share options were amended to reflect the demerger of Thorn plc from EMI. For non-UK residents an appropriate adjustment was made to the price of the option. However, as the Inland Revenue would not permit such adjustments to be made to UK-approved options, no adjustment could be made to the options of UK residents. Instead, in respect of each option, a special par value (14p) option was granted to achieve broadly the same effect as if adjustments had been made. Accordingly, the earliest exercise dates for these options are the same as for the options to which they relate as shown under the 1984 Thorn EMI Executive Share Option Scheme and the grant on 25 August 1995 under the 1995 EMI Group Executive Share Option Scheme but the last exercise date is 22 August 2003.

(iv) Awards granted in the form of performance related share right awards under the EMI Group Senior Executive Incentive Plan which are equivalent to options under the 1995 EMI Group Executive Share Option Scheme.

(c) *1996 EMI Group Savings-Related Share Option Scheme*

Date of grant	No. of shares	Exercise price (p)	Exercise dates from	Exercise dates to
27 March 1997 – 3 year	41,522	466	1.5.00	31.10.00
27 March 1997 – 5 year	287,460	466	1.5.02	31.10.02
15 July 1998 – 3 year	152,094	424	1.9.01	28.02.02
15 July 1998 – 5 year	217,104	424	1.9.03	29.02.04
14 July 1999 – 3 year	186,324	415	1.9.02	28.02.03
14 July 1999 – 5 year	212,112	415	1.9.04	28.02.05

All the above executive and savings-related options were granted for nil consideration. As a consequence of the Combination, all of the above options will become exercisable, with the exception of those held by employees of EMI who will not transfer to Warner EMI Music and options granted under the 1995 EMI Group Executive Share Option Scheme and performance related share right awards granted under the EMI Group Senior Executive Incentive Plan on 10 December 1999.

The achievement of performance conditions is normally a precondition for the exercise of share options. No such conditions are attached to options issued under the 1984 Thorn EMI Executive Share Option Scheme and the 1996 EMI Group Savings-Related Share Option Scheme. Options granted under the 1995 EMI Group Executive Share Option Scheme are subject to one of two performance conditions:

(i) *Options granted from 25 August 1995 to 3 June 1999 inclusive, but excluding certain of those granted on 23 August 1996 with an option price of 14p:* For these options, the performance requirements are for EMI's Total Shareholder Return ("TSR"), compared to the TSR of all the FTSE 100 Index constituent ("FTSE100") companies, to be at least equal to the median-ranked company. The FTSE100 is fixed at the start of the calculation. TSR is the percentage growth of share price plus dividends paid over the calculation period. For this purpose, the share price is taken as the average closing mid-market share price over the 12 months immediately prior to the start and end of the calculation. Dividends are accounted for by deeming net dividends to be reinvested at the mid-market closing share price on the relevant dividend payment dates.

(ii) *Options and performance related share right awards granted on 10 December 1999:* These options and awards are subject to a performance requirement that EMI's adjusted, fully diluted earnings per share ("EPS") must grow by at least 2 per cent. per annum compounded more than the UK Retail Prices Index ("RPI") during the three-year period following the date of grant ("the Vesting Period"). If the performance requirements are not achieved at the end of the Vesting Period, growth in EMI's EPS for the three-year period ending one year after the Vesting Period will be measured against the growth in the UK RPI for such three-year period. Such testing of the increase in EMI's EPS will continue annually until the earlier of the achievement of the performance requirements or the tenth anniversary of the date of grant.

3.3 During the three years immediately preceding the date of this document, the following changes in the amount of the issued and fully-paid share capital of EMI have occurred:

(a) From 1 April 1997 to 21 July 1997, 89,043 ordinary shares of 25p each were issued as follows:

(i) 1,393 EMI ordinary shares to satisfy subscriptions under the then existing EMI Group personal equity plans; and

(ii) 87,650 EMI ordinary shares to satisfy the exercise of options under the EMI Group executive share option schemes.

(b) On 21 July 1997, EMI effected a share capital reorganisation with the aim of returning £499.1m to shareholders on the register at the close of business on 18 July 1997 (the "Record Date") and enhancing EMI's financial structure. Prior to the reorganisation, EMI made an on-market purchase on 17 June 1997 of 120,000 of its own 25p ordinary shares at a price of 1,170p per share. The shares were then cancelled. The reorganisation involved several stages, as follows:

(i) *Preliminary Reorganisation:* One ¼p share was issued by way of a bonus issue for each 25p ordinary share held on the Record Date; 434,694,106 bonus shares were issued. Each ¼p share was consolidated with an existing ordinary share of 25p to create a share of 25¼p. Each 25¼p share was then split into two 12⅝p undesignated shares.

(ii) *Share Capital Consolidation:* Every ten shares of 12⅝p were consolidated into nine new EMI Ordinary Shares. Fractional entitlements were satisfied in cash through an off-market purchase by EMI, on 22 July 1997, of the resulting two undesignated shares of 12⅝p at a price of 488.7p per share and 13,192 EMI Ordinary Shares, at a price of 543p per share. The shares purchased were then cancelled.

(iii) *Bonus Issue of Cumulative Redeemable Preference B Shares:* One cumulative redeemable preference B share of nominal value 114.5p was issued for each 25p existing Ordinary Share held on the Record Date; 434,694,106 B shares were issued.

(iv) *Redemption of B Shares:* Early redemption: as a result of elections made up to 18 July 1997, 368,713,624 B shares were redeemed at par on 22 July 1997 and cancelled. Initial Redemption Period: as a result of elections made between 22 July and 19 August 1997, a further 50,340,763 B shares were redeemed at par on 21 August 1997 and cancelled.

(v) *Compulsory Conversion:* The 15,639,719 B shares remaining unredeemed were converted on 29 September 1997 into 3,035,070 EMI Ordinary Shares and 3,496,513,690,000 deferred shares of 0.0005p each. In accordance with the articles of association, the rate of conversion of one EMI Ordinary Share for every 5.153 B shares was based on the average closing market price of EMI Ordinary Shares for the five business days preceding the conversion. The deferred shares were then cancelled.

(c) From 21 July 1997 up to 30 May 2000 (being the last practicable date prior to the publication of this document), and other than as referred to in paragraph 3.3(b)(v) above, EMI Ordinary Shares were issued as follows:

	Executive share option schemes	Savings-related share option scheme
21 July 1997 to 31 March 1998	1,264,146	17,644
1 April 1998 to 31 March 1999	577,743	16,231
1 April 1999 to 31 March 2000	971,913	4,081
1 April 2000 to 30 May 2000	0	163,715

3.4 Pursuant to a resolution passed at the Annual General Meeting of EMI held on 16 July 1999, the EMI Directors were generally authorised, pursuant to Section 80 of the Act, to allot relevant securities (as defined in that Section) up to a maximum aggregate nominal value of £37,963,736, such authority to expire on 15 October 2000 or at the conclusion of the 2000 Annual General Meeting, whichever is the earlier.

3.5 Pursuant to a special resolution passed at the Annual General Meeting of EMI held on 16 July 1999, the EMI Directors were generally authorised to make market purchases (as defined in Section 163 of the Act) of its own shares up to a maximum of 78,735,897 shares, subject to certain conditions set out therein, such authority to expire on 15 October 2000 or at the conclusion of the 2000 Annual General Meeting, whichever is the earlier.

3.6 The provisions of Section 89(1) of the Act (which, to the extent not disapplied pursuant to Section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of equity securities (which are, or are to be paid up in cash)) apply to the authorised but unissued share capital of EMI. Pursuant to a special resolution passed at the Annual General Meeting of EMI held on 16 July 1999, the EMI Directors were granted authority to allot equity securities for cash as if section 89(1) of the Act did not apply up to a maximum aggregate nominal value of £5,511,512, such authority to expire on 15 October 2000 or at the conclusion of the 2000 Annual General Meeting, whichever is the earlier.

3.7 By resolutions to be proposed at the Extraordinary General Meeting of EMI to be held on 26 June 2000 (if passed):

(a) the Combination will be approved;

(b) the authorised share capital of EMI will be increased from £656,106,182.835 to £683,306,182.835 (representing a 4.15 per cent. increase in the authorised share capital of EMI (as at 30 May 2000 being the latest practicable date prior to the publication of this document)) by the creation of 80,000,000 new Convertible Deferred Shares and 80,000,000 new EMI Ordinary Shares pursuant to the Combination;

(c) the EMI Directors will be authorised, pursuant to Section 80 of the Act, to allot Convertible Deferred Shares up to a maximum aggregate nominal value of £16,000,000 (representing 14.49 per cent. of the total issued ordinary share capital of EMI as at 30 May 2000 (being the latest practicable date prior to the publication of this document)), pursuant to the terms of the Subscription and Option Agreement, such authority to expire on the first anniversary of the passing of the resolution, and such authority being in addition and without prejudice to any existing or further authority conferred on the EMI Directors under Section 80 of the Act; and

(d) the EMI Directors will be authorised, pursuant to Section 80 of the Act, to allot EMI Ordinary Shares up to a maximum nominal aggregate value of £11,200,000 (representing 10.15 per cent. of the total issued ordinary share capital of EMI as at 30 May 2000 (being the latest practicable date prior to the publication of this document)) pursuant to the terms of the Subscription and Option Agreement, such authority to expire on the first anniversary of the passing of the resolution, and such authority being in addition and without prejudice to any existing or further authority conferred on the EMI Directors under Section 80 of the Act;

(e) the EMI Directors will be authorised to allot up to 80,000,000 Convertible Deferred Shares pursuant to the terms of the Subscription and Option Agreement as if Section 89(1) of the Companies Act did not apply thereto, such authority to expire on the first anniversary of the passing of such resolution;

(f) the EMI Directors will be authorised to allot up to 80,000,000 EMI Ordinary Shares pursuant to the terms of the Subscription and Option Agreement as if Section 89(1) of the Act did not apply thereto such authority to expire on the first anniversary of the passing of such resolution;

(g) and subject to admission to the Official List of the UK Listing Authority of the ordinary shares coming about as a result of the Consolidation, the Special Cash Payment and the Consolidation (see paragraph 3.11 below) will be approved;

(h) EMI will adopt new articles of association incorporating the rights and restrictions attaching to the Convertible Deferred Shares and the effectively valueless deferred shares; and

(i) the EMI Directors will be authorised to effect any conversion of the Convertible Deferred Shares in accordance with the rights and restrictions attached to the Convertible Deferred Shares as set out in the new articles of association proposed to be adopted at the Extraordinary General Meeting.

The resolutions referred to in paragraphs 3.7(b) to (i) will not come into effect if Closing does not take place.

3.8 Save for the issue of the Convertible Deferred Shares at Closing pursuant to the Subscription and Option Agreement or the issue of EMI Ordinary Shares pursuant to the Time Warner Option, and the sale for the exercise of options under the EMI share option schemes, the EMI Directors have no present intention of issuing further shares in the capital of EMI.

3.9 As at 30 May 2000, (being the latest practicable date prior to the publication of this document) outstanding Senior Executive Incentive Plan and Long-Term Incentive Plan awards (assuming related performance targets are met at their maximum levels) were as follows:

SCHEME	Award period/ cycle	Award date	Shares awarded and dividend equivalents	Matching shares	Total shares
Long Term Incentive Plan	Cycle 7	1.4.95	62,939	14,566	77,505
Senior Executive Incentive Plan					
– Incentive Awards	1996/97	6.6.97	374,278	210,225(ii)	584,503
	1997 & 1998	—	65,565	19,555(ii)	85,120
	1997/98	5.6.98	99,816	53,528(ii)	153,344
	1998/99	18.6.99	156,693	84,542(ii)	241,235
	1999/2000	18.6.99	88,848	59,232(ii)	148,080
– Performance Share Awards/ Restricted Share Awards	1995/96(i)	18.6.96	33,988	—	33,988
	1995/96(i)	23.8.96	503,039	167,668(ii)	670,707
	1996/97(i)	6.6.97	544,596	181,523(ii)	726,119
	1997/98(i)	5.6.98	278,430	92,801(ii)	371,231
	1998/2002	1.12.98	1,075,000	—	1,075,000
	1998/2002(i)	1.12.98	1,650,000	—	1,650,000
	1998/2001(i)	17.12.98	1,743,063	581,002(ii)	2,324,065
	1999/2002(i)	22.7.99	2,458,778	819,574(ii)	3,278,352
	1999/2000	3.6.99	65,000	—	65,000
	1999/2000	30.3.00	129,161	—	129,161

Notes:

(i) Vesting of all or part of the Performance Share Awards is normally subject to the achievement of performance criteria. Certain Performance Share Awards will vest as a result of the Combination. The effect of the Combination on the awards is described in paragraph 9.4 below.

(ii) Matching shares are normally only added if the release of the relevant awards is deferred for three or six years after the original vesting date (for Incentive Awards) or three years (in the case of Performance Share Awards). Matching shares will vest as a result of the Combination. The effect of the Combination on matching shares is described in paragraph 9.4 below.

3.10 Save as disclosed in this paragraph 3 and pursuant to the Subscription and Option Agreement (see Section B of Part 9 of this document):

(a) no share or loan capital of EMI or any of its subsidiaries has, within three years before the date of this document (other than intra-group issues by wholly-owned subsidiaries), been issued or been agreed to be issued fully or partly paid, either for cash or for a consideration other than cash and (save for the issue of Convertible Deferred Shares to Time Warner at Closing) no such issue is now proposed;

(b) no commissions, discounts, brokerages or other special terms have been granted by EMI or any of its subsidiaries within the three years immediately preceding the date of this document in connection with the issue or sale of any share or loan capital of any such company; and,

(c) neither EMI nor any of its subsidiaries has granted any option over its shares or loan capital which remain outstanding or has agreed, conditionally or unconditionally, to grant any such options.

3.11 The purpose of the Consolidation will be to reduce the number of EMI Ordinary Shares in issue by the same proportion that the amount of the Special Cash Payment bears to the market capitalisation of EMI (based on the closing middle market price of an EMI Ordinary Share on the trading day immediately preceding the Closing Date as derived from the London Stock Exchange's Daily Official List). Subject to the treatment of fractional entitlements (see below), the Consolidation will not dilute shareholders' proportionate holding's in EMI. The resulting ordinary shares (the "New Ordinary Shares") will have a correspondingly higher nominal value per share. Fractional entitlements arising as a result of the Consolidation will not be issued to shareholders but will be sold in the market and the net proceeds paid in cash to shareholders in proportion to their respective entitlements. Any issued share capital which cannot be dealt with as previously described will be converted into effectively valueless deferred shares (having the rights and restrictions referred to in paragraph 4.8 of this Part 10) and thereafter cancelled. The authorised but unissued share capital of EMI will be converted into New Ordinary Shares, and any authorised but unissued share capital which cannot be so converted will be cancelled.

4. SUMMARY OF THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF EMI

4.1 The Memorandum of Association

The memorandum of association of EMI states its principal objects to be the carrying on of the business of a holding company; the manufacture, production, distribution and publishing of compact discs, audio and video cassettes, cartridges and tapes, records and electronic, digital and other sound carriers, and other media; and the management and employment of artists of all kinds (including musicians, singers, actors, authors, composers and arrangers). The objects of EMI are set out in full in clause 4 of EMI's memorandum of association which is available for inspection at the address specified in paragraph 21 below.

4.2 Share capital

Subject to the provisions of the Act and without prejudice to the rights attached to any existing shares or class of shares, any shares may be issued with such rights or restrictions as EMI may by ordinary resolution determine or, subject to or in default of such determination, as the EMI Board determines.

The EMI Board may issue share warrants to bearers in respect of any fully paid shares and provide (by coupon or otherwise) for payment of dividends or other money on the shares represented by the warrant. The EMI Board may determine the conditions on which share warrants to bearer will be issued, replaced or surrendered and the conditions on which the bearer may (if at all) attend and vote at general meetings.

Subject to the provisions of the Act, shares may be issued which are to be redeemed or are to be liable to be redeemed either at the option of EMI or the shareholder.

4.3 Rights attaching to EMI Ordinary Shares

Voting rights

(a) Subject to the restrictions referred to below and subject to any special rights or restrictions as to voting attached to any class of shares, on a show of hands every shareholder who is present (whether in person, or by proxy, or being a corporation, by corporate representative) at a general meeting will have one vote and on a poll every shareholder present (whether in person, or by proxy, or being a corporation, by corporate representative) will have one vote for every share held.

(b) At any general meeting a resolution put to a vote will be decided on a show of hands unless a poll is demanded (before or on the declaration of the result of a show of hands) by the chairman, or in writing by not less than five persons having the right to vote at the meeting, or by a shareholder or shareholders holding in aggregate the requisite voting rights.

Restrictions on voting

(c) Only shareholders who have paid to EMI all calls, and all other sums, relating to their shares which are due at the time of a general meeting are able to exercise any rights attaching to their shares at that general meeting.

(d) If any shareholder or any person appearing to be interested in shares held by such shareholder has been duly served with a notice under section 212 of the Act (section 212 gives public companies the power to demand information with respect to interests in their voting shares) and has not complied with that notice within 14 days of the date of that notice then the EMI Directors may by notice (a "Direction Notice") to such shareholder direct that the shareholder will not (for so long as the default continues) in respect of the shares in relation to which the default occurred ("Default Shares") be entitled to attend or vote (whether personally or by proxy or by corporate representative) at any general meeting or at any meeting of the holders of any class of shares of EMI or on a poll.

(e) Where the Default Shares represent 0.25 per cent. or more of the issued shares of the class in question, the EMI Directors may by a Direction Notice to such shareholder direct that no dividend (or other money payable in respect of such shares) be paid and that no shares be allotted in lieu of a dividend in respect of the Default Shares. EMI may also impose restrictions on transfer. In the case of shares in uncertified form, the EMI Directors may only exercise their discretion not to register a transfer if permitted to do so by the Regulations referred to in paragraph (m) below. Any Direction Notice will cease to have effect when the EMI Directors are satisfied that the information required by the section 212 notice has been received in writing by EMI.

Dividends

(f) Unless and to the extent that rights attaching to shares provide otherwise (and to the extent that the EMI Board consider the profits of EMI justify payments), the members are entitled to share equally amongst themselves profits available for distribution and resolved to be distributed, in proportion to the numbers of shares held by them and the amounts paid up on those shares. Interim dividends may be paid if profits are available for distribution and if the EMI Directors so resolve. No dividend payable on a share will bear interest.

(g) Dividends otherwise payable on a share on which EMI has a lien may be retained and applied towards the debt or liability for which the lien exists.

(h) The EMI Directors may, with the prior approval (by ordinary resolution) of the shareholders at any annual general meeting, offer the shareholders the right to elect to receive further shares, credited as fully paid, instead of cash in respect of all or part of such dividend or dividends as may be declared or paid.

(i) Each dividend on the shares of EMI is paid to those shareholders on the register of members on the record date for such dividend fixed by the EMI Directors.

(j) Any dividend unclaimed after 12 years from the date when it became due for payment will be forfeited and will revert to EMI.

Winding-up

(k) On a winding-up of EMI, the liquidator may, with the authority of an extraordinary resolution of EMI:

(i) divide up the whole or any part of the balance of the assets available for distribution, amongst the shareholders whether in kind or in specie, in such proportions as the liquidator thinks fit; or

(ii) vest the whole or any part of the balance of the assets available for distribution in trustees upon such trusts for the benefit of the members as the liquidator thinks fit.

(l) No member will be compelled to accept any asset on which there is any liability.

Uncertificated shares

(m) Subject to the provisions of the Uncertificated Securities Regulations 1995 (the "Regulations"), the EMI Board may permit the holding of shares in any class of shares in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the Regulations). The EMI Board may determine that any class of shares will cease to be a participating security in a relevant system.

Transfer of shares

(n) Members may effect the transfer of certificated shares in writing in any usual or common form, or in any other manner acceptable to the EMI Directors and permitted by the Act, the Listing Rules and the LSE Admission Standards, and such transfers must be executed by or on behalf of the transferor and unless the share is fully paid, by or on behalf of the transferee. All transfers of uncertificated shares will be effected in accordance with the Regulations.

(o) The EMI Directors have a discretion to refuse to register a transfer of a certificated share which is not fully paid without giving any reason but the transferee must be provided with a notice of the refusal within two months of when the instrument of transfer was lodged with EMI or the instructions of the Operator (as defined in the Regulations) were received. The EMI Directors may also decline to register any instrument of transfer unless: (i) it is in respect of only one class of share; (ii) it is duly stamped, or adjudged or certified as not chargeable to stamp duty, and is deposited at EMI's registered office, or such other place as the EMI Directors may from time to time determine, together with the relevant share certificate(s); and (iii) it is in favour of not more than four transferees. The EMI Directors may determine not to register a transfer in respect of shares which are the subject of a notice under section 212 of the Act and which represent 0.25 per cent. or more in nominal value of the issued shares of their class, and in respect of which the required information has not been received by EMI within the prescribed period.

Variation of rights

(p) Subject to the provisions of the Act, the special rights attaching to any class of share in EMI may be varied or abrogated with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the relevant class, but not otherwise. Such class meetings are subject to the same provisions which apply to general meetings, save that:

(i) the quorum is members of the relevant class who hold in aggregate at least one third of the nominal amount of the shares of the relevant class;

(ii) any person present in person or by proxy (being a holder of shares of the relevant class) may demand a poll; and

(iii) on a poll, every such holder has one vote for each share of the relevant class held by him.

(q) Whenever the share capital is divided into different classes of shares those rights will not be deemed to be varied by the creation or issue of further shares ranking equally with or subsequent to that share or class of shares or by the purchase by EMI of its own.

4.4 Alteration of capital and purchase of own shares

(a) EMI from time to time by ordinary resolution (and to the extent that such resolution so provides), may increase its share capital, consolidate and divide all its shares, or any of them, into shares of larger amounts, sub-divide all its shares, or any of them, into shares of smaller amounts and cancel any shares not taken or agreed to be taken by any person, and subject to and in accordance with the provisions of the Act and to any rights attached to any shares, it may reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve in any manner.

(b) EMI may purchase any of its own shares subject to and in accordance with the provisions of the Act.

4.5 Directors voting when materially interested

An EMI Director may not vote at a meeting of the EMI Board on any proposal (except those described below) in which, to his knowledge he (or a person connected to him) has a material interest otherwise than by virtue of his interests in shares, debentures or other securities or otherwise in or through EMI. An EMI Director will not be counted in the quorum at a meeting relating to any resolution on which he is barred from voting. However, subject to the Act, an EMI Director will not be prevented from voting solely if his material interest arises from:

(a) the giving of any guarantee, security or indemnity to him for money lent or obligations incurred by him at the request of, or for the benefit of, EMI or any of its subsidiaries;

(b) the giving of any guarantee, security or indemnity for a debt or obligation of EMI or any of its subsidiaries for which he has assumed responsibility under a guarantee or indemnity or by giving security;

(c) any proposal concerning an offer of shares or debentures or other securities of EMI or any of its subsidiaries for subscription or purchase or exchange in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting;

(d) any proposal concerning any other company in which he is interested provided that he does not hold an interest (as that term is used in sections 198 to 211 of the Act) representing 1 per cent. or more of the issued shares of any class of the equity share capital or voting rights;

(e) any proposal for the benefit of employees of EMI which does not award him any benefit not generally accorded to the employees to whom the contract or arrangement relates; and

(f) any proposal concerning insurance which EMI is empowered to purchase and/or maintain for any EMI Directors.

4.6 Borrowing powers exercisable by the EMI Directors

Subject to the restrictions in the articles of association the EMI Directors may exercise all of EMI's powers to borrow money. The borrowing limit, without prior sanction of an ordinary resolution of EMI is two and a half times the issued Share Capital and Consolidated Reserves as those expressions are defined in EMI's articles of association. These borrowing powers can be amended by an ordinary resolution.

4.7 Chairman etc.

The EMI Directors may elect from their number a Chairman and they may elect one or more Deputy Chairmen, Vice Chairmen, Managing Directors, Chief Executives or Deputy Chief Executives for such periods as they shall determine. The EMI Directors may also appoint as President of EMI any person who is not an EMI Director but who has rendered outstanding service to EMI.

4.8 Proposed amendments to the articles of association

The notice of Extraordinary General Meeting set out at the end of this document includes a special resolution to adopt from Closing new articles of association of EMI incorporating the rights and restrictions attaching to the Convertible Deferred Shares (for further details see Section B of Part 9 of this document). The new articles of association will also set out the rights and restrictions attaching to the effectively valueless deferred shares in the capital of the Company which will result from the Consolidation and which it is proposed will thereafter be cancelled. The deferred shares will have no dividend or voting rights and will carry a right to receive an amount up to their aggregate nominal value on a winding-up of the Company once holders of EMI Ordinary Shares have received £10,000 per EMI Ordinary Share.

A copy of the proposed new articles of association will be available for inspection during usual business hours on any weekday (public holidays excepted) at the offices of Freshfields, 65 Fleet Street, London EC4Y 1HS, from the date of this document until the Closing Date. A copy will also be available during, and for at least 15 minutes prior to, the Extraordinary General Meeting.

5. EMI DIRECTORS AND PROPOSED WEM DIRECTORS AND OFFICERS

5.1 The names of the EMI Directors and their functions are set out below:

Name	Function
Eric Luciano Nicoli	Chairman
Martin Neal Bandier	Chief Executive Officer, EMI Music Publishing
Antony Jeffrey Bates	Group Finance Director, EMI Group plc and Executive Vice President and Chief Financial Officer, EMI Recorded Music
Kenneth Malcolm Berry	Chief Executive Officer, EMI Recorded Music
Sir Nicholas Dominic Cadbury	Non-executive Deputy Chairman
Dr Harald Einsmann	Non-executive
Michael Richard Jackson	Non-executive
Hugh Royston Jenkins	Non-executive
Kathleen Anne O'Donovan	Non-executive

5.2 On 8 March 1999, EMI announced that Eric Nicoli would succeed Sir Colin Southgate as Chairman. Mr Nicoli commenced employment with EMI on 1 May 1999 as Chairman Designate and became Chairman at the conclusion of the Annual General Meeting on 16 July 1999, when Sir Colin Southgate ceased to be a Director. It is proposed that Martin Bandier, Tony Bates and Ken Berry will retire from the EMI Board with effect from the Closing Date, when they will become employees of Warner EMI Music.

5.3 The Proposed WEM Directors and Officers and their proposed functions within Warner EMI Music are set out below:

Name	Function	Appointed by
Proposed WEM Directors		
Eric Luciano Nicoli	Co-Chairman	EMI
Richard D. Parsons	Co-Chairman	Time Warner
Sir Nicholas Dominic Cadbury	Non-executive	EMI
Dr Harald Einsmann	Non-executive	EMI
Michael Richard Jackson	Non-executive	EMI
Kathleen Anne O'Donovan	Non-executive	EMI
Merv Adelson	Non-executive	Time Warner
J. Carter Bacot	Non-executive	Time Warner
Beverly Sills Greenough	Non-executive	Time Warner
Gerald Greenwald	Non-executive	Time Warner
Spencer B. Hays	Non-executive	Time Warner
Proposed CEO and COO of WEM		
Roger Ames	Chief Executive Officer	Time Warner
Kenneth Malcolm Berry	Chief Operating Officer	EMI

5.4 The EMI business address of Eric Nicoli, Ken Berry, Sir Dominic Cadbury, Dr Harald Einsmann, Kathleen O'Donovan and Michael Jackson is 4 Tenterden Street, Hanover Square, London W1A 2AY, UK. The Time Warner business address of Richard D. Parsons, Roger Ames, Merv Adelson, J. Carter Bacot, Beverley Sills Greenough, Gerald Greenwald and Spencer B. Hays is 75 Rockefeller Plaza, New York, NY 10019, US.

5.5 Details of the relevant management experience of each of the EMI Directors and the Proposed WEM Directors and Officers is set out below:

(a) Eric Luciano Nicoli (49) *Chairman:* Eric Nicoli was appointed to the EMI Board in 1993 as a non-executive director, becoming Chairman in July 1999. Until 30 April 1999, he was Group Chief Executive of United Biscuits (Holdings) plc ("UB"), which he joined from Rowntree Mackintosh in 1980. He was appointed to the UB board in 1989 as Chief Executive, European Operations and became Chief Executive of UB in 1991.

Current Directorships	Past Directorships (within the last 5 years)
Business In The Community	United Biscuits (Holdings) plc
Caldicott Trust Ltd	
Charity Projects	
Comic Relief Ltd	
EMI Group plc	
HMV Media Group plc	
PerCent Club	
The EMI Group Archive Trust	
The Tussauds Group Limited	

(b) Martin Neal Bandier (58) *Chief Executive Officer, EMI Music Publishing:* Martin Bandier was appointed to the EMI Board in April 1998. He joined EMI Music Publishing as its Vice-Chairman in 1989 upon the acquisition of SBK Entertainment World Inc. (SBK), in which he was a founding partner. He was appointed Chief Executive Officer of EMI Music Publishing in 1991.

Mr Bandier entered the music publishing business in 1975 as a founding partner of the Entertainment Music Company and the Entertainment Television Company and, together with his partners, created SBK in 1986.

Current Directorships	Past Directorships (within the last 5 years)
BMI Foundation (US) EMI Group plc National Music Publishers' Association (US) Rock and Roll Hall of Fame (US) Songwriters' Hall of Fame (US) Syracuse University Board of Trustees (US)	American Society of Composers, Authors and Publishers (US)

(c) Antony Jeffrey Bates (44) *Group Finance Director, EMI Group plc and Executive Vice President and Chief Financial Officer, EMI Recorded Music:* Tony Bates was appointed Group Finance Director and joined the EMI Board on 1 January 2000 combining this position with his previous role of Executive Vice President and Chief Financial Officer of EMI Recorded Music. He joined EMI from Habitat UK, in 1990, where he had been Finance Director. Mr Bates has worked in a number of senior positions in both the EMI and Virgin businesses and played an integral role in the acquisition of the latter business in 1992. Prior to his role at Habitat, Mr Bates worked at Philip Morris and Arthur Andersen. He is a Fellow of the Institute of Chartered Accountants.

Current Directorships	Past Directorships (within the last 5 years)
EMI Group plc Starlings (Holtwood Road) Residents' Association Limited	None

(d) Kenneth Malcolm Berry (48) *Chief Executive Officer, EMI Recorded Music:* Ken Berry was appointed to the EMI Board in April 1998 and is responsible for EMI's recorded music business operations. He joined EMI in 1992 as Chairman and Chief Executive Officer of Virgin Music, upon its acquisition from the Virgin Group. In 1994, he was promoted to the new post of President and Chief Executive Officer of EMI Recorded Music, responsible for EMI's recorded music operations outside North America, and was appointed Chief Executive Officer of EMI Recorded Music worldwide in June 1997. Mr Berry began his career in the music industry in 1973 with Virgin Group, where he became Managing Director of Virgin Music.

Current Directorships	Past Directorships (within the last 5 years)
EMI Group plc	None

(e) Sir Nicholas Dominic Cadbury (60) *Deputy Chairman and senior independent Non-executive Director:* Sir Dominic joined the EMI Board in 1998, becoming Deputy Chairman and senior independent Non-executive Director in July 1999. He is Chairman of EMI's Remuneration and Nomination Committees.

Sir Dominic retired as Chairman of Cadbury Schweppes plc on 12 May 2000 after seven years in that post, having joined the company in 1964 after graduation from Stanford University. He joined the board of Cadbury Schweppes in 1974 as Managing Director of its Foods Division, and subsequently held a number of board positions.

Current Directorships	Past Directorships (within the last 5 years)
EMI Group plc	The Food & Drink Federation
LJC Fund Limited	Cadbury Schweppes plc
Misys plc	Guinness plc
National Institute of Economic & Social Research	
Teaching Awards Trust	
The Economist Newspaper Limited	
The Qualifications & Curriculum Authority	
The Wellcome Trust	

(f) Dr Harald Einsmann (66): Harald Einsmann joined the EMI Board in 1992. He retired as Executive Vice President and a member of Procter & Gamble's main board and executive committee in 1999.

Current Directorships	Past Directorships (within the last 5 years)
British American Tobacco plc	Proctor & Gamble Company (US)
EMI Group plc	American Chamber of Commerce, Brussels (Belgium)
Findus AB (Sweden)	University of Boston in Brussels (Belgium)
Stora-Enso OY (Finland)	
Tesco plc	

(g) Michael Richard Jackson (42): Michael Jackson was appointed to the EMI Board in October 1999. He is Chief Executive of Channel Four Television Corporation, which he joined in June 1997. Mr Jackson started his career as an independent television producer, joining the BBC in 1987 as an editor and subsequently holding various posts, including Head of Music & Arts, Television, Controller BBC2, and Director of Television and Controller BBC1.

Current Directorships	Past Directorships (within the last 5 years)
Channel Four Television Corporation	124 Facilities Ltd
EMI Group plc	

(h) Hugh Royston Jenkins CBE (66): Hugh Jenkins joined the EMI Board in 1995. He was appointed Chairman of Development Securities PLC in 1999. Until 1995, Mr Jenkins was Chairman and Chief Executive of Prudential Portfolio Managers and a director of Prudential Corporation, and was also Chairman of Thorn plc (now Thorn Limited) prior to its acquisition by a unit of Nomura Securities in July 1998.

Current Directorships	Past Directorships (within the last 5 years)
Airplanes Limited (Jersey)	Private Finance Panel Ltd
Development Securities PLC	Prudential Corporation plc
EMI Group plc	Thorn plc (now Thorn Limited)
Gartmore European Investment Trust plc	
Johnson Matthey plc	
Rothchild Asset Management BV (Netherlands)	
SmithKline Beecham Pension Fund Trustees Limited	
Stirling Assurance Limited	
The Rank Group plc	

(i) Kathleen Anne O'Donovan (43): Kathleen O'Donovan joined the EMI Board in 1997 and was appointed Chairman of the Audit Committee in 1999. She is Finance Director of Invensys plc, the global engineering services company formed by the combination of BTR and Siebe in 1999. Ms O'Donovan joined BTR as Finance Director in 1991 from Ernst & Young, where she had been a partner.

Current Directorships	Past Directorships (within the last 5 years)
Bank of England EMI Group plc Invensys plc	None

(j) Richard D. Parsons (51) *President, Time Warner Inc.:* Mr. Parsons became President of Time Warner on February 1, 1995. He is currently also a director of Time Warner. Prior to that, Mr. Parsons served as the Chairman and Chief Executive Officer of The Dime Savings Bank of New York, FSB from January 1991. He served as a director of American Television and Communications Corporation, then an 82 per cent.-owned subsidiary of Time Warner, from 1989 to 1991.

Current Directorships	Past Directorships (within the last 5 years)
Citigroup Inc. (US) Estee Lauder Companies, Inc. (US) Philip Morris Companies Inc. (US) Time Warner Inc. (US)	None

(k) Roger Ames (51) *Chairman and Chief Executive Officer, Warner Music Group:* Roger Ames was appointed Chairman and Chief Executive Officer of Warner Music Group in August, 1999, four months after he was appointed President of Warner Music International. Mr. Ames began his career in the music industry with EMI UK in 1975, working in both the international and A&R departments. In 1979, he joined PolyGram UK in the A&R department of the Phonogram label, and in 1983 moved to PolyGram's relaunched London Records as General Manager, subsequently being named Managing Director. In 1993, he was named Chairman and CEO of PolyGram UK, responsible for all of PolyGram's activities in Ireland and the UK, including record labels, film distribution, music publishing and music club operations. Mr. Ames was named Executive Vice President of PolyGram and President of the PolyGram Music Group in 1996, where he oversaw all of the company's international pop marketing, worldwide music publishing, music and video labels in the US, PolyGram Group Distribution, PolyGram Holding Inc.'s finance function and PolyGram UK.

Current Directorships	Past Directorships (within the last 5 years)
Warner Music Group Inc. (US)	British Phonographic Industry Limited
Warner Bros. Records Inc. (US)	Divinestate Limited
Warner/Chappell Music, Inc. (US)	Go! Holdings Limited
Elektra Entertainment Group Inc. (US)	Hammersmith Records Limited
	MacDonald & Campbell Music Company Limited
	M & G Music Limited
	M & G Records Limited
	Mercury Records Limited
	New Century Television (Holdings) Limited
	New Century Television Limited
	Phonogram Limited
	Phonogram Music Limited
	Phonographic Performance Limited (PPL)
	Polydor Limited
	Universal Music Operations Limited
	Universal Music UK Limited
	Universal Music Publishing Limited
	Universal Pictures (UK) Limited
	Universal Pictures Visual Programming Limited
	Video Performance Limited (VPL)

(l) Merv Adelson (70) *Chairman of East-West Capital Associates and former Chairman and Chief Executive Officer of Lorimar Telepictures:* Mr. Adelson has served as Chairman of East-West Capital Associates (a private investment company) since April 1989. Mr. Adelson served as Vice Chairman and a director of Warner Communications Inc. from January 1989 through August 1991 and as a director of Time Warner from 1989 to May 2000. Prior to that, Mr. Adelson served as Chairman and Chief Executive Officer of Lorimar Telepictures Corporation from February 1986 until its acquisition by Warner Communications Inc. in January 1989.

Current Directorships	Past Directorships (within the last 5 years)
East-West Capital Associates (US)	Time Warner Inc. (US)
7th Level, Inc. (US)	
Foroudja, Inc. (US)	

(m) J. Carter Bacot (67) *Retired Chairman and Chief Executive Officer of The Bank of New York:* Mr. Bacot served as Chairman and Chief Executive Officer of The Bank of New York Company, Inc. and Chairman of The Bank of New York from 1982 until February 8, 1998 and currently serves as a consultant. Mr Bacot has served as a director of Time Warner since 1996.

Current Directorships	Past Directorships (within the last 5 years)
Time Warner Inc. (US)	None
Associates First Capital Corporation (US)	
The Bank of New York Company, Inc. (US)	
Centennial Insurance Co. (US)	
Phoenix Home Life Mutual Insurance Co. (US)	
Balfynn Corp. (US) (partner, not director)	
Venator Group, Inc. (US)	

(n) Beverly Sills Greenough (70) *Chairman of Lincoln Center for the Performing Arts:* Mrs. Greenough has served as the Chairman of Lincoln Center for the Performing Arts since June 1994, having served as a Managing Director of The Metropolitan Opera from 1991. Mrs. Greenough served as a director of Warner Communications Inc. from 1982 to 1990 and of Time Warner from 1989 to May 2000.

Current Directorships	Past Directorships (within the last 5 years)
Lincoln Center for the Performing Arts, Inc. (US)	Time Warner Inc. (US)
American Express Company (US)	
Human Genome Science Inc. (US)	

(o) Gerald Greenwald (64) *Chairman Emeritus of UAL Corporation and United Airlines, Inc.:* Mr. Greenwald served as Chairman and Chief Executive Officer of UAL Corporation (an airline holding company) and United Airlines, Inc. from July 1994 until July 1999. Mr Greenwald has served as a director of Time Warner since 1997.

Current Directorships	Past Directorships (within the last 5 years)
Time Warner Inc. (US)	UAL Corporation (US)
Aetna Inc. (US)	United Airlines, Inc. (US)

(p) Spencer B. Hays (55) *Vice President and Deputy General Counsel of Time Warner Inc.:* Mr. Hays has served in this capacity since the formation of Time Warner in 1990. Prior to 1990 he was employed in various capacities by Time Warner Inc.'s predecessor, Warner Communications Inc., most recently as Senior Vice President and General Counsel.

Current Directorships	Past Directorships (within the last 5 years)
Time Warner Telecom, Inc. (US)	None

(q) Officers of Warner EMI Music who have not yet been selected will be appointed following the Closing Date.

6. DIRECTORS' AND OTHER INTERESTS IN EMI

6.1 The interests, all of which are beneficial, of the EMI Directors and the Proposed WEM Directors, in EMI Ordinary Shares as at 30 May 2000 (being the latest practicable date prior to the publication of this document), which in aggregate represent less than 1 per cent. of the issued ordinary share capital of EMI, are set out in the table below. In each case, the figures are based upon the interests in EMI Ordinary Shares which have been notified to EMI by each EMI Director or which would have been required to be notified to EMI by the Proposed WEM Directors if they were EMI Directors to EMI pursuant to section 324 or section 328 of the Act as at 30 May 2000 (being the latest practicable date prior to the publication of this document) or are required pursuant to section 325 of the Act to be entered into the register of directors' interests maintained under that section or are interests of a connected person (within the meaning of section 346 of the Act) of an EMI Director or a Proposed WEM Director which would, if the connected person were an EMI Director, be required to be disclosed under such sections of the Act, and the existence of which is known to or could with reasonable diligence be ascertained by that EMI Director or Proposed WEM Director.

	EMI Ordinary Shares	Awards of EMI Ordinary Shares under Incentive Plans	
		Non-contingent	Contingent
EMI Directors (including Proposed WEM Directors nominated by EMI)			
E L Nicoli	3,794	—	255,909
M N Bandier	155,060	—	1,292,251
A J Bates	74,098	41,344	508,814
K M Berry(iii)	156,908	162,512	2,239,150
Sir Dominic Cadbury	5,000	—	—
Dr H Einsmann	1,800	—	—
M R Jackson	739	—	—
H R Jenkins	1,101	—	—
K A O'Donovan	—	—	—
Proposed WEM Directors nominated by Time Warner			
R D Parsons	—	—	—
M Adelson	—	—	—
J C Bacot	—	—	—
B S Greenough	—	—	—
G Greenwald	—	—	—
S B Hays	—	—	—

Notes:

(i) *The table set out above assumes no dealings by the EMI Directors or the Proposed WEM Directors or such connected persons, and that no further EMI Ordinary Shares are issued, whether pursuant to the exercise of options or otherwise, after 30 May 2000 (being the latest practicable date prior to the publication of this document).*

(ii) *The table assumes full vesting of Performance Share Awards based on the achievement of performance targets. The table includes matching share awards in respect of other awards of EMI Ordinary Shares which have been deferred. The matching shares will vest on Closing. The effect of the Combination on the matching shares is described in paragraph 9.4 below.*

(iii) *Mr Berry's share interests include those of his wife who is also an employee of the EMI Group.*

(iv) *The total of the listed holdings represents less than 1 per cent. of the total number of issued EMI Ordinary Shares. None of the EMI Directors or Proposed WEM Directors, individually, has an interest in excess of 1 per cent. of the total number of issued EMI Ordinary Shares.*

(v) *The Trustee of the EMI Employee Benefit Trust holds 6,270,228 EMI Ordinary Shares (less than 1 per cent. of the issued share capital). Under paragraph 2 of schedule 13 of the Act, the executive EMI Directors are deemed to be interested in these shares.*

6.2 The following EMI Directors have options over EMI Ordinary Shares (all of which have been granted for no consideration) under the 1984 Thorn EMI Executive Share Option Scheme, the 1995 EMI Group Executive Share Option Scheme and the 1996 EMI Group Savings-Related Share Option Scheme:

	Date granted	Exercise price (p)	Number of shares under option	Exercise period from	Exercise period to
M N Bandier	25 August 1995	590.315	253,084	25.8.98(i)	24.8.05
	23 August 1996	734.500	60,000	23.8.99(i)	22.8.06
	6 June 1997	575.000	52,144	6.6.00(i)	5.6.07
A J Bates	23 August 1996	734.500	67,500	23.8.99(i)	22.8.06
	27 March 1997	466.000	3,700	1.5.02	31.10.02
	6 June 1997	575.000	51,672	6.6.00(i)	5.6.07
K M Berry(iii)	22 July 1994	534.000	200,000	22.7.97(i)	21.7.04
	25 August 1995	747.000	231,500	25.8.98(i)	24.8.05
	23 August 1996	14.000	54,146	22.7.97(ii)	22.8.03
	23 August 1996	14.000	62,672	25.8.98(ii)	22.8.03
	23 August 1996	734.500	430,000	23.8.99(i)	22.8.06
	6 June 1997	575.000	206,778	6.6.00(i)	5.6.07
	5 June 1998	531.500	16,000	5.6.01(i)	4.6.08
E L Nicoli	3 June 1999	440.000	60,000	3.6.02(i)	2.6.09

Notes:

(i) Exercise of options is normally subject to the achievement of performance criteria. Certain options will be exercisable as a result of the Combination. The effect of the Combination on the EMI share option schemes is described at paragraphs 9.2 and 9.3 below.

(ii) Exercise of these options is linked to the exercise of options granted on or before 25 August 1995 as described in paragraph 3.2(b) above.

(iii) Mr Berry's options include those of his wife who is also an employee of the EMI Group.

Save as disclosed, none of the EMI Directors or Proposed WEM Directors nor any persons connected with any of them has any interest in the share capital of EMI.

6.3 No EMI Director or Proposed WEM Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of EMI or Warner Music Group and which was effected by any member of the EMI Group or Warner Music Group during the current or immediately preceding financial year or during an earlier financial year and remains in any respect outstanding or unperformed save as disclosed elsewhere in this document.

6.4 There are no outstanding loans granted by any member of the EMI Group or Warner Music Group to any of the EMI Directors or Proposed WEM Directors, nor any guarantees provided by any such company for their benefit.

6.5 As at 30 May 2000 (being the latest practicable date prior to the publication of this document), EMI had been notified of the following direct or indirect shareholdings representing 3 per cent. or more of its issued share capital:

Name	No. of EMI Ordinary Shares	Percentage of existing issued share capital
The Capital Group Companies, Inc.	37,127,310	4.71
Janus Capital Corporation	40,483,228	5.14
Merrill Lynch & Co., Inc. group of companies, including Mercury Asset Management Ltd	57,929,030	7.53
Prudential plc group of companies	30,239,983	3.83
Putnam Investment Management, Inc. and The Putnam Advisory Company, Inc.	29,845,836	3.78

6.6 The Directors are not aware of any person who, directly or indirectly, jointly or severally is able to exercise control over EMI.

7. DIRECTORS' SERVICE CONTRACTS

7.1 The following service agreements have been entered into between the EMI Directors and EMI or one of its subsidiaries:

(a) *Eric Luciano Nicoli*

An agreement dated 26 April 1999, but effective from 1 May 1999, whereunder Eric Nicoli agreed to serve EMI as executive chairman. The agreement is terminable by 12 months' notice given by either EMI or Mr Nicoli, except as follows: (i) 24 calendar months, if EMI gives notice to Mr Nicoli on or before 30 April 2001; and, (ii) as from and after 1 May 2001, the notice period will be automatically increased to 24 calendar months on a change of control. Termination by Mr Nicoli for cause or by EMI without cause is subject to the payment by EMI of a severance payment (broadly, base salary, benefits and target bonus for two years). There is an express obligation on Mr Nicoli to mitigate his loss and earnings from other employment during the two years (one year, following a change of control of EMI) after termination would be offset against the severance payment.

Under the agreement, Mr Nicoli is entitled to: (i) a salary (currently at the rate of £525,000 per annum); (ii) participation in each plan year of the Senior Executive Incentive Plan with an annual incentive award of up to a maximum of 80 per cent. of base salary and an annual performance award of up to a maximum of 120 per cent. of base salary; (iii) participation in the 1995 EMI

Group Executive Share Option Scheme and a restricted performance share award as described in paragraph 9.1(g)(iii) solely to provide a replacement for employee incentives lost on leaving the employment of UB; (iv) executive membership of the EMI Group Pension Fund and, as he is subject to the pensions 'earnings cap', participation in the additional top-up retirement (at the rate of 55.7 per cent. of earnings above the cap), disability and life cover (to give a total of four times pensionable pay) arrangements provided by EMI; (v) the provision of a fully expensed motor car with driver; and, (vi) medical insurance.

(b) *Martin Neal Bandier*

An agreement made as of 1 April 1998, whereunder Martin Bandier agreed to serve EMI Entertainment World, Inc. as Chairman and Chief Executive Officer of EMI Music Publishing. The agreement was for an initial term of two years and is automatically extendable day by day up to 31 March 2003. The agreement is terminable by 30 days' notice given by the employing company to Mr Bandier. Termination by Mr Bandier for cause or by the employing company without cause is subject to the payment by the employing company of a severance payment (broadly, base salary, benefits and target bonus for two years). There is an express obligation on Mr Bandier to mitigate his loss and earnings from other employment during the year after termination would be offset against the severance payment.

Under the agreement, Mr Bandier is entitled to: (i) a salary (currently at the rate of US$2,250,000 per annum); (ii) participation in the 1995 EMI Group Executive Share Option Scheme in respect of grants made prior to 1998; (iii) the provision of performance and restricted share awards as described in paragraphs 9.1(g)(i) and (ii); and (iv) participation in EMI Music's US defined contribution retirement benefit plans whereby the employing company contributes 18 per cent. of pay on a contractual basis and an additional 6 per cent. as matching funds to Mr Bandier's contributions. Mr Bandier also can contribute up to an additional 8 per cent. of pay on an unmatched basis. Consistent with US practice, pay for this purpose includes the value of annual cash bonuses under the Senior Executive Incentive Plan.

(c) *Antony Jeffrey Bates*

An agreement dated 30 March 2000, but effective from 1 January 2000, whereunder Tony Bates agreed to serve EMI as Group Finance Director and as Executive Vice President and Chief Financial Officer of EMI Recorded Music. The agreement is terminable with immediate effect by EMI, or by 12 months' notice given by Mr Bates. Termination by Mr Bates for cause or by the employing company without cause is subject to payment by the employing company of a severance payment (broadly, two times base salary, benefits and target bonus). There is an express obligation on Mr Bates to mitigate his loss and earnings from other employment for the period from 12 to 24 months after termination would be offset against the severance payment. Alternatively, Mr Bates or the employing company can call for the payment of a lesser fixed sum without mitigation or offset.

Under the agreement, Mr Bates is entitled to: (i) a salary (currently at the rate of £472,500 per annum) and the provision of a restricted share award as described in paragraph 9.1(g)(iv); (ii) participation in each plan year of the Senior Executive Incentive Plan with an annual incentive award of up to a maximum of 80 per cent. of base salary and an annual performance award of up to a maximum of 120 per cent. of base salary; (iii) participation in the 1995 EMI Group Executive Share Option Scheme in respect of grants made prior to 1998; (iv) executive membership of the EMI Group Pension Fund and, as he is subject to the pensions 'earnings cap', participation in the additional top-up retirement (at the rate of 56.5 per cent. of earnings above the cap), disability and life cover (to give a total of four times pensionable pay) arrangements provided by EMI; (v) the provision of a fully expensed motor car; and, (vi) medical insurance.

(d) *Kenneth Malcolm Berry*

An agreement made as of 1 April 1998, whereunder Ken Berry agreed to serve EMI Music, Inc. as President and Chief Executive Officer of EMI Recorded Music. The agreement is terminable for cause by 30 days' notice given by the employing company to Mr Berry, or by Mr Berry to the employing company. Mr Berry may also terminate the agreement without cause on giving the employing company 12 months' notice. On termination by Mr Berry for cause or by the employing company without cause, Mr Berry would be entitled to the payment by the employing company of a severance payment (broadly, base salary, benefits and target bonus for two years). There is an express obligation on Mr Berry to mitigate his loss and earnings from other employment during the year after termination would be offset against the severance payment.

Under the agreement, Mr Berry is entitled to: (i) a salary (currently at the rate of $3,000,000 per annum); (ii) participation in the 1995 EMI Group Executive Share Option Scheme in respect of grants made prior to 1998; (iii) participation in the EMI Group Pension Fund with an indemnity from his employing company to cover any shortfall between payments under the 1994/95 and 1993/94 Cycles of the EMI Music Long-Term Incentive Plan and the Inland Revenue's limits on final remuneration; (iv) the provision of performance and restricted share awards as described in paragraphs 9.1(g)(i) and (ii); (v) provision of a house rent free in the Los Angeles area; and (vi) participation in a tax equalisation programme so that, although Mr Berry undertakes the majority of his duties in the US, he will pay income tax at the same level as he would incur in the UK.

7.2 The non-executive EMI Directors were appointed pursuant to the following letters:

(a) A letter from EMI dated 23 February 1998, whereunder Sir Nicholas Dominic Cadbury was appointed as a non-executive EMI Director with effect from 20 February 1998;

(b) A letter from EMI dated 18 May 1992, whereunder Dr Harald Einsmann was appointed as a non-executive EMI Director with effect from that date;

(c) A letter from EMI dated 11 October 1999, whereunder Michael Richard Jackson was appointed as a non-executive EMI Director with effect from 19 October 1999;

(d) A letter from EMI dated 12 September 1995, whereunder Hugh Royston Jenkins was appointed as a non-executive EMI Director with effect from 11 September 1995; and

(e) A letter from EMI dated 21 November 1997, whereunder Kathleen Anne O'Donovan was appointed as a non-executive EMI Director with effect from that date.

Each of the non-executive directors is entitled to receive directors' fees of £30,000 per annum. Sir Dominic Cadbury, in his capacity as Deputy Chairman and senior independent non-executive EMI Director, receives an additional £20,000 per annum and Kathleen O'Donovan receives an additional £5,000 per annum as Chairman of the Audit Committee. None of the non-executive EMI Directors is entitled to receive any further remuneration or commission, or to participate in any profit-sharing arrangements pursuant to their appointment. The appointments may be terminated at any time by either EMI or the non-executive EMI Director without compensation.

7.3 Save as disclosed in paragraph 7.1 above, there are no service agreements between any of the EMI Directors and EMI or any of its subsidiaries.

7.4 (a) The total aggregate remuneration (including benefits in kind, pension contributions and prior year share awards ceasing to be contingent) of the EMI Directors for the year ended 31 March 2000 was £10,342,600.

(b) The total aggregate salary, benefits in kind and pension contributions of the EMI Directors for the year ended 31 March 2001, is estimated to be approximately £3,550,000 (assuming for this purpose that Closing takes place on 30 September 2000, at which time Mr Bandier, Mr Bates and Mr Berry will retire as Directors of EMI). As described in paragraph 7.1 (a), (b), (c) and (d) above, the EMI Directors may also become entitled to performance related cash bonuses in respect of the year. In addition, if the Combination is implemented, certain share options and share awards granted to the EMI Directors will become exercisable or vested, as described in paragraphs 9.2 and 9.4 below.

7.5 The EMI Directors and the Proposed WEM Directors and Officers, as set out in paragraph 5 above:

(a) have no unspent convictions relating to indictable offences;

(b) have had no bankruptcies or individual voluntary arrangements;

(c) have not been directors with an executive function of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors of such company;

(d) have not been partners of any partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangements of such partnership;

(e) have not been partners of any partnership at the time of or within 12 months preceding a receivership of any assets of such partnership;

(f) have not had any of their assets subject to any receivership; and

(g) have not received any public criticisms by statutory or regulatory authorities (including recognised professional bodies) and have not been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

8. EMPLOYEES OF EMI GROUP AND WARNER MUSIC GROUP

8.1 *EMI Group*

During the following years ended 31 March, the EMI Group had, on average, the following numbers of full time employees:

1997	1998	1999
10,934	10,452	10,292

8.2 *Warner Music Group*

During the following years ended 31 December, Warner Music Group had, on average, the following numbers of full time employees:

1997	1998	1999
12,996	11,998	11,919

9. EMPLOYEE SHARE SCHEMES

9.1 EMI operates the Employee Share Schemes, which are described below, as follows:

(a) EMI has the following current Employee Share Schemes:

(i) 1995 EMI Group Executive Share Option Scheme ("1995 Scheme");

(ii) 1996 EMI Group Savings-Related Share Option Scheme ("SAYE Scheme"); and

(iii) EMI Group Senior Executive Incentive Plan ("SEIP").

(b) In addition, options and awards remain outstanding under the 1984 Thorn EMI Executive Share Option Scheme ("1984 Scheme") and the EMI Music Long-Term Incentive Plan ("LTIP").

(c) Since 1995, options over EMI Ordinary Shares have only been granted or awards made under the 1995 Scheme, the SAYE Scheme, the SEIP and the LTIP. The main provisions of each of the Employee Share Schemes are as described in sub-paragraphs 9.1(d) to (i) below.

(d) *1995 Scheme*

(i) The 1995 Scheme was adopted on 21 July 1995 and has been approved by the Inland Revenue under the provisions of the Income and Corporation Taxes Act 1988. Approved options to acquire EMI Ordinary Shares may be granted to UK-resident employees under the 1995 Scheme. Since July 1995, the maximum value of approved options that any UK-resident individual may have outstanding under the 1995 Scheme or any other similar EMI Inland Revenue approved option scheme at any time is £30,000. Options in excess of this value, and options granted to non-UK-resident directors and senior executives, are granted under the 1995 Scheme as unapproved options.

(ii) The 1995 Scheme has the following main features:

(A) There are limits in the 1995 Scheme, designed to comply with institutional guidelines, which restrict the grant of options over unissued shares. The maximum number of EMI Ordinary Shares that may be issued under the 1995 Scheme and any other option schemes may not exceed 10 per cent. of the issued share capital of EMI in any 10-year period. No more than 5 per cent. of the issued ordinary share capital may be issued or be capable of issue under options granted under any discretionary scheme operated by EMI in any 10-year period. In addition, options granted under the 1995 Scheme and any other share option scheme during the preceding three years must not exceed 3 per cent. of the issued ordinary share capital as at any date of grant. Further, the total number of shares over which options may be granted under the 1995 Scheme must not exceed 220,000,000.

(B) The 1995 Scheme is only available to employees or EMI Directors who may, from time to time, be selected to participate by the Committee. Options are normally only granted within 42 days following the announcement of EMI's interim or final results.

(C) No options may be granted under the 1995 Scheme more than 10 years after the adoption of the scheme by EMI.

(D) An option may not be granted to any executive over unissued EMI Ordinary Shares which when aggregated with any outstanding option would result in the aggregate value of all such options exceeding four times his remuneration.

(E) The price payable on the exercise of an option may not be less than the market value of an EMI Ordinary Share on the date on which the option is granted (being the closing middle market price of an EMI Ordinary Share derived from the London Stock Exchange Daily Official List for such day), in respect of options granted to US residents, or the average of the market value during the five trading days up to and including the date of grant in respect of other recipients, or the nominal value of an EMI Ordinary Share (if greater).

(F) Options may not be transferred or assigned. In normal circumstances, options may be exercised after the expiry of three years, but before the expiry of ten years from the date of grant. Exercise is conditional upon the achievement of the performance criteria set by the Committee at the time of the grant of the relevant options. Early exercise of options is permitted in certain circumstances (including the optionholder's death, a participant's employing company ceasing to be a subsidiary of EMI, a participant ceasing employment in certain other circumstances as decided by the Committee, a take-over offer for EMI becoming unconditional, or a winding-up of EMI) and in certain of these circumstances the exercise is conditional on the achievement of such performance requirements, if any, as determined by the Committee having regard to the original performance requirements of the option.

(G) In the event of certain variations of capital, the terms of existing options may be subject to adjustment.

(H) The 1995 Scheme may be amended by the Committee. However, no changes to the advantage of existing or future optionholders may be made without the prior approval of the shareholders in general meeting. Amendments to the 1995 Scheme in respect of approved options also require the prior approval of the Inland Revenue.

Details of the outstanding options under the 1995 Scheme are set out in paragraph 3.2(b) above. The effect of the Combination on the options granted under the 1995 Scheme is described in paragraphs 9.2 and 9.3 below.

(e) *SAYE Scheme*

The SAYE Scheme was originally adopted by EMI's shareholders on 15 July 1994 as the 1994 Thorn EMI SAYE Scheme; it was readopted by EMI's shareholders, with its current name, on 19 July 1996 prior to the demerger of Thorn plc from EMI.

Options to acquire shares in EMI may be granted to UK employees under the SAYE Scheme, which has been approved by the Inland Revenue under the Income and Corporation Taxes Act 1988. The SAYE Scheme has the following main features:

(i) The SAYE Scheme is administered by the EMI Board.

(ii) The maximum number of EMI Ordinary Shares that may be issued under the SAYE Scheme, when aggregated with the number of EMI Ordinary Shares issued under any other employee share option schemes, may not exceed 10 per cent. of the issued ordinary share capital of EMI in any 10-year period. In addition, no more than 3 per cent. of the issued ordinary share capital may be issued or capable of issue under the SAYE Scheme and any other employee share scheme in any three-year period.

(iii) Employees with such period of continuous service (between one month and five years) as determined by the directors are eligible to apply for options under invitations made following the announcement of EMI's final or interim results. To be granted an option, an eligible employee must take out a savings contract under which he contributes between £5 and £250 per month for a period of three or five years as he elects.

(iv) Options are granted over EMI Ordinary Shares having an aggregate acquisition price equal to the total savings plus the bonus earned under the related savings contract.

(v) No options may be granted under the SAYE Scheme more than ten years after the adoption of the scheme by EMI.

(vi) The acquisition price per EMI Ordinary Share payable on the exercise of an option shall be determined by the EMI Board and may not be less than 80 per cent. of the market value of an Ordinary Share or the nominal value of an Ordinary Share (if greater).

(vii) Options, which are not transferable, may normally be exercised using the repayments of the savings during the six-month period following completion of the related savings contract if the optionholder has remained an employee. Options may be exercised earlier in certain circumstances (including the optionholder's death, a participant's employing company ceasing to be a subsidiary of EMI, a take-over offer for EMI becoming unconditional, or a winding-up of EMI), but only to the extent that EMI Ordinary Shares can be acquired with repayments made, plus interest earned, under the related savings contracts.

(viii) In the event of certain variations of capital, the terms of existing options will be subject to adjustment. Such adjustment is subject to the prior approval of the Inland Revenue.

(ix) The SAYE Scheme may be amended by the EMI Board. However, no changes to the advantage of existing or future optionholders may be made without the prior approval of EMI's shareholders in general meeting. Amendments to the SAYE Scheme also require the prior approval of the Inland Revenue.

Details of options outstanding under the SAYE Scheme are set out in paragraph 3.2(c) above. The effect of the Combination on the options granted under the SAYE Scheme is described in paragraph 9.2 below.

(f) *SEIP*

The SEIP was adopted by shareholders on 16 August 1996 and has the following main features:

(i) At the discretion of the Committee, all EMI Directors and employees of EMI or any of its subsidiaries who devote substantially the whole of their time and attention to the business of the EMI Group (or trustees acting on behalf of such individuals) are eligible to be selected by the Committee to participate in the SEIP. Currently, the Committee limits the application of the SEIP to executive EMI Directors and certain other senior executives of EMI Group.

(ii) Subject to the discretion of the Committee, no awards may be granted or released unless the performance criteria, set by the Committee have been achieved. The Committee may amend previously set performance criteria where, in the reasonable opinion of the Committee, their continued application would be inappropriate or impractical and the amended performance criteria will be no more or less difficult to satisfy than the criteria originally imposed.

(iii) Annual cash bonuses may be granted subject to the achievement of annual performance criteria set by the Committee in respect of EMI or individual business units. Such cash bonuses are satisfied, at the Committee's discretion, either in the form of an immediate award of EMI Ordinary Shares, or cash or, at the participant's request, a right to receive EMI Ordinary Shares on a deferred basis ("Incentive Awards"). Any deferral is normally for not less than three years. During deferral, the shares do not earn dividends but, to encourage shares to be held, a number of matching shares can be awarded so that the number of shares is increased by one-third if deferred for three years and by two-thirds if deferred for at least six years.

(iv) Participants are also normally eligible each year for performance related share awards ("Performance Share Awards") calculated as a percentage of base salary. Each year's Performance Share Award vests at the end of a three-year performance period, the number of EMI Ordinary Shares released depending upon EMI or business unit performance against profit targets for the three-year period set by the Committee. To encourage long-term retention of EMI's shares, participants can defer the release of an award for a further three-year period, and a number of matching shares can be awarded so that the number of shares is increased by one-third at the end of the deferral period. In the event of a change of control of EMI, awards made prior to July 1998 vest in full. Subsequent awards are released based on performance at target or actual performance to date, whichever is greater.

For executive EMI Directors, release of the Performance Share Award is normally subject to a further performance requirement related to EMI's total shareholder return ("TSR"), i.e. share price growth plus the value of dividends paid. For the award to be released, EMI's TSR must have at least equalled the TSR performance of the median of those companies that comprised the FTSE 100 at the start of the three-year performance cycle.

(v) In the event that a participant is no longer employed by an EMI Group company at the proposed date of release of an award that has been deferred, such award lapses unless the Committee otherwise determines.

Awards under the SEIP, including those that have been deferred, are normally released in the event of a take-over, reconstruction, winding-up or demerger of EMI, or on a participant ceasing to be employed by an EMI Group company. The Committee has discretion to determine the terms and conditions relating to the release of awards. In the case of a take-over and with the agreement of the acquiring company, existing awards may be exchanged for, inter alia, awards over the shares of such acquiring company.

(vi) Awards under the SEIP may not be granted after the tenth anniversary of the adoption of the SEIP by EMI's shareholders, unless the extension of the Plan for a further period of up to ten years is approved by shareholders.

(vii) Entitlements to awards under the SEIP are met from shares purchased in the market and held by the EMI Group General Employee Benefit Trust. The maximum number of shares due from outstanding awards under the SEIP is set out in paragraph 3.9 above. The effect of the Combination on these awards is described in paragraph 9.4 below.

(g) *Individual awards to Executive Directors*

(i) In place of the normal overlapping annual share awards based on three-year performance cycles, Mr Berry and Mr Bandier have been granted one-time Performance Share Awards under the SEIP, of 1,000,000 and 650,000 EMI Ordinary Shares respectively. These awards are in respect of the four year period from 1 April 1998 to 31 March 2002. The number of shares released on 31 March 2002 will normally depend upon the relevant business unit's performance against aggregate growth targets over the four-year performance period. Release of these Performance Share Awards is normally also subject to the TSR test applicable to executive EMI Directors as described in 9.1(f)(iv) above. In certain circumstances, the awards may be released before the vesting date, for example on termination of the executive's employment agreement because of breach by EMI or following a change of control (which includes EMI ceasing to control more than 50 per cent. of the net assets of EMI Recorded Music in Mr Berry's case or EMI Music Publishing in Mr Bandier's case). The awards lapse if, prior to the vesting date, the executive resigns voluntarily or his employment agreement is terminated by the EMI Group for cause (as defined in the contract). The effect of the Combination on these awards is described in paragraph 9.4 below.

(ii) Mr Berry and Mr Bandier have been granted restricted share awards under the SEIP of, respectively, 725,000 and 350,000 EMI Ordinary Shares. These shares would normally vest on 31 March 2002. The awards are in lieu of additional base salary and are not subject to performance requirements. The awards will lapse if, prior to the vesting date, the executive resigns voluntarily or his employment agreement is terminated by the EMI Group for cause. All or part of the awards may vest before 31 March 2002 in certain circumstances, including if EMI terminates the executive's employment agreement without cause, or upon a change of control (which includes EMI ceasing to control more than 50 per cent. of the net assets of EMI Recorded Music in Mr Berry's case or EMI Music Publishing in Mr Bandier's case). The effect of the Combination on these awards is described in paragraph 9.4 below.

(iii) Mr Nicoli has been granted a restricted share award under the SEIP of 65,000 EMI Ordinary Shares, which would normally vest on 31 March 2002. The award provides a replacement for employee incentives lost on leaving the employment of UB and is not subject to performance requirements. The award will lapse if, prior to the vesting date, the executive resigns voluntarily or his employment agreement is terminated by EMI for cause. All or part of the award may vest before 31 March 2002 in certain circumstances, including if EMI terminates the executive's employment agreement without cause, upon a change of control of EMI, or as determined by the Committee. The effect of the Combination on Mr Nicoli's award is described in paragraph 9.4 below.

(iv) Mr Bates has been granted a restricted share award under the SEIP of 129,161 EMI Ordinary Shares, which will vest on 31 December 2002. The award is in lieu of additional base salary and is not subject to performance requirements. All or part of the award may vest before 31 December 2002 in certain circumstances, including if EMI terminates the executive's employment agreement without cause or upon a change of control of EMI under the rules of the SEIP. The effect of the Combination on Mr Bates' award is described in paragraph 9.6 below.

(h) *1984 Scheme*

The 1984 Scheme was approved by shareholders on 14 September 1984 and has the following main features:

(i) The 1984 Scheme enabled participants to be granted options over EMI Ordinary Shares during the 10 years up to 13 September 1994. The 1984 Scheme is administered by the Committee.

(ii) Full-time employees (including executive EMI Directors) of EMI, and of such of its subsidiaries as the EMI Board decided should be participating companies, were eligible to be selected for participation in the 1984 Scheme.

(iii) The price at which a participant subscribes for an EMI Ordinary Share on the exercise of an option is the middle market quotation of EMI Ordinary Shares on the last business day before the option was granted, derived from the Daily Official List of the London Stock Exchange. This price is subject to adjustment in the event of certain variations in EMI's share capital.

(iv) Options may usually be exercised only between three and ten years after their grant. However, earlier exercise is permitted if the participant leaves service with the EMI Group through death, redundancy, retirement, injury or disability, or because his employing company ceases to be a subsidiary of the EMI Group. Similarly, exercise may be permitted if EMI were to be wound-up, or upon an amalgamation or reconstruction.

(v) EMI Ordinary Shares issued under the 1984 Scheme rank pari passu with other EMI Ordinary Shares then in issue, save that they do not rank for any rights attributable to EMI Ordinary Shares by reference to a record date preceding the date of exercise.

(vi) The Board may amend the 1984 Scheme to obtain or maintain Inland Revenue approval, but otherwise no alterations to the benefit of optionholders may be made without the prior approval of EMI's shareholders in general meeting. Any amendments would also require the prior approval of the Inland Revenue.

Details of outstanding options under the 1984 Scheme are set out in paragraph 3.2(a) above. The effect of the Combination on options under the 1984 Scheme is set out in paragraph 9.2 below.

(i) *LTIP*

The LTIP commenced in 1990 with no further awards being made after 1997 and has the following main features:

(i) The LTIP was established for key senior executives of EMI Music.

(ii) Awards of EMI Ordinary Shares under the LTIP were based on the achievement of certain objectives, measured against profit after notional interest, over a three-year period (known as a performance cycle). As awards were made each year, up to three such cycles could be operating at any given time.

(iii) Awards were pro-rated in the event of the participant's employment being terminated during a performance cycle by the employing company without cause or due to the participant's death, disability or retirement at normal retirement age.

(iv) On a change of control of EMI, the entire award under each performance cycle would vest.

(v) Awards under each performance cycle would be satisfied by the transfer to the participant of the relevant number of EMI Ordinary Shares. Alternatively, participants could elect, in the calendar year prior to the date on which the award vested, to defer payment of the award for three further years. During the deferral period, the deferred shares receive dividend equivalents through the provision of additional shares. At the end of the deferral period, the participant receives one bonus or matching share for every four of the deferred shares.

(vi) Entitlements to awards under the LTIP are met from shares purchased in the market and held by the EMI Group General Employee Benefit Trust.

Outstanding awards under the LTIP are set out in paragraph 3.9 above. The effect of the Combination on the LTIP is described in paragraph 9.5 below.

9.2 Almost all options under the 1995 Scheme, the SAYE Scheme and the 1984 Scheme are held by employees of the EMI Group who will transfer to Warner EMI Music and will, if they are not already exercisable, become exercisable for specified periods upon Closing. The Committee has determined, having regard to the original performance requirements, performance to date and the likely effect of the Combination, that options granted under the 1995 Scheme will become exercisable upon Closing. On expiry of the relevant periods, the options will lapse to the extent that they have not by then been exercised. In the case of options granted under the SAYE Scheme, option holders will be entitled to exercise their options only to the extent of the savings and interest accumulated in their related savings accounts up to the date of exercise. Those option holders whose contracts of employment will not be transferring to Warner EMI Music on Closing will retain their options for the full period.

9.3 Options and performance related share right awards granted on 10 December 1999 under the unapproved part of the 1995 Scheme and the SEIP by virtue of the terms imposed at the time of their grant, will not become exercisable due to the Combination and will continue to be governed by the terms of the relevant scheme (as varied for this purpose), which broadly make the future exercise of such options and rights conditional upon participants remaining in employment with Warner EMI Music or any of its subsidiaries, and the achievement of performance criteria.

9.4 The Committee has determined in accordance with the discretion given it under the terms of the SEIP that awards of EMI Ordinary Shares granted under the SEIP in respect of the 1995/96, 1996/97 and 1997/98 performance periods will vest and be released to participants upon Closing. The Committee has also determined that awards of EMI Ordinary Shares granted and to be granted under the SEIP, in respect of the 1998/2001, 1999/2002 and proposed 2000/2003 performance cycles, will vest upon Closing. The number of vested shares will be determined on the basis of the higher of target or actual performance up to the Closing Date. In the case of the proposed 2000/2003 performance cycle the number of vested shares will be capped at target performance. The maximum number of shares that can vest (excluding the proposed 2000/2003 performance cycle) is set out in paragraph 3.9 above. The shares will not, however, be released to participants until the normal vesting dates in June 2001, June 2002 and June 2003 respectively or earlier upon the termination of employment of a participant. A participant who voluntarily terminates his employment before those dates will forfeit the outstanding awards.

Matching shares as described in paragraphs 9.1(f)(iii) and (iv) will vest on Closing. These matching shares will not, however, be released until the normal vesting dates.

The Committee has further determined, having regard to the contractual terms of the Performance Share Awards that were granted to Mr Berry and Mr Bandier under the SEIP in respect of the four year 1998/2002 performance cycle, details of which are referred to in paragraph 9.1(g)(i) above, that such awards will vest upon Closing. The awards will not, however, be released until the normal vesting date in March 2002. The number of vested shares will be determined on the basis of the higher of target or actual performance up to the Closing Date.

The restricted share awards granted to Mr Berry and Mr Bandier, details of which are described in paragraph 9.1(g)(ii) above, will vest in full upon Closing in accordance with the terms of their service contracts. In addition, the Committee has determined that the restricted share award granted to Mr Nicoli, details of which are given in paragraph 9.1(g)(iii) above, will vest in full upon Closing. These vested shares will not, however, be released until the normal vesting date in March 2002.

9.5 Awards under the LTIP are not affected by the Combination.

9.6 Mr Bates' award as described in paragraph 9.1(g)(iv) above is not affected by the Combination.

9.7 *Warner Music Group*

(a) A significant number of employees of Warner Music Group (including Roger Ames who is currently Chairman and CEO of Warner Music Group and who will become Chief Executive Officer of Warner EMI Music) currently hold options to purchase Time Warner common stock. A substantial majority of these options was granted prior to the announcement of the Combination or pursuant to commitments entered into prior to such announcement and by their terms remain exercisable for up to ten years after the date of grant. It is anticipated that additional Time Warner options will be granted to certain Warner Music Group employees prior to Closing in connection with existing contractual entitlements or otherwise in the ordinary course of business. Options issued prior to the announcement of the Combination are fully vested. All other options are not subject to any performance conditions other than continued employment. Time Warner has agreed that it will not, without EMI's consent, issue Time Warner options to employees of Warner EMI Music after Closing, and this will include AOL Time Warner options if the merger of AOL and Time Warner takes place.

(b) The Warner EMI Music Boards will determine the incentive schemes to be adopted by Warner EMI Music following Closing. Under the Listing Rules as currently applied to Warner EMI Music, any such incentive scheme will require the approval of EMI's shareholders prior to its adoption if it involves: (i) the issue of equity interests in WEM UK or WEM US or in EMI (unless, in EMI's case, such shares are to be issued under EMI's existing share schemes as described in paragraph 9.1 above); or (ii) it is a long-term incentive scheme in which one or more of the members of the Warner EMI Music Boards are eligible to participate (unless the arrangement is either available to all employees or is established specifically to facilitate, in unusual circumstances, the recruitment or retention of such a member).

(c) EMI and Time Warner have agreed that any grant of equity incentives to employees of Warner EMI Music after the Closing Date will be based only on the performance of Warner EMI Music. If, but only if, EMI and Time Warner both so agree, such equity incentives may be delivered in the form of option grants or share awards in respect of EMI Ordinary Shares or common stock of Time Warner (or of AOL Time Warner following consummation of the proposed merger of AOL and Time Warner). However, the grant or exercise of any such option grants or the release of any such share awards would depend upon performance standards in relation to Warner EMI Music or one or more of its business units.

(d) In considering whether to agree to the grant of options or share awards in respect of EMI Ordinary Shares or Time Warner (or AOL Time Warner) common stock, EMI will seek to ensure that the interests of Warner EMI Music's management are appropriately aligned with those of EMI's shareholders as well as of Time Warner.

(e) Neither Time Warner (or AOL Time Warner following consummation of the proposed merger of AOL and Time Warner) nor EMI may charge any cost in respect of any such equity incentive schemes to Warner EMI Music unless they both agree to the charge being made.

10. PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

10.1 *EMI*

The principal subsidiaries and associated undertakings of EMI, which is the holding company of the EMI Group, are as follows:

Name	Registered office	Activity	Country of incorporation	Percentage owned
Capitol Records, Inc.	1	Recorded music	US	100
Capitol-EMI Music, Inc.	1	Recorded music	US	100
Chrysalis Records Ltd	2	Recorded music	England	100
EMI Electrola GmbH	3	Recorded music	Germany	100
EMI Entertainment World, Inc.	1	Music publishing	US	100
EMI Group Finance plc	4	Corporate finance company	England	100
EMI Group Holdings (UK) Ltd	4	Corporate holding company	England	100
EMI Group International Holdings Ltd	4	Corporate holding company	England	100
EMI Group North America Holdings, Inc.	1	Corporate holding company	US	100
EMI Group North America, Inc.	1	Corporate holding company	US	100
EMI Group Worldwide Ltd	4	Corporate holding company	England	100
EMI Music Australia Pty Ltd	5	Recorded music	Australia	100
EMI Music France SA	6	Recorded music	France	100
EMI Music Italy SpA	7	Recorded music	Italy	100
EMI Music Publishing Ltd	8	Music publishing	England	100
EMI Records Ltd	2	Recorded music	England	100
Group Virgin Disques SA	9	Recorded music	France	100
Jobete Music Company, Inc.	10	Music publishing	US	50
Priority Records, LLC	11	Recorded music	US	100
Toshiba-EMI Ltd	12	Recorded music	Japan	55
Virgin Records America, Inc.	11	Recorded music	US	100
Virgin Records Ltd	13	Recorded music	England	100
Virgin Schallplatten GmbH	14	Recorded music	Germany	100

Registered Offices (US: Service of Process Address):

(1) The Prentice-Hall Corporation System, Inc., 1013 Centre Road, Wilmington, Delaware DE19805, New Castle County

(2) EMI House, 43 Brook Green, London W6 7EF

(3) Maarweg 149, 50825 Köln

(4) 4 Tenterden Street, London W1A 2AY

(5) 100 Glover Street, Cremorne, New South Wales 2090

(6) 43 rue Camille Desmoulins, 92130 Issy-les-Moulineaux

(7) Piazza San Babila 3, 20122 Milano

(8) 127 Charing Cross Road, London WC2H 0EA

(9) 11 Place des Vosges, 75004 Paris

(10) The Prentice-Hall Corporation System, Inc., 601 Abbott Road, East Lansing, Michigan MI48823, Ingham County

(11) The Prentice-Hall Corporation System, Inc., 2730 Gateway Oaks Drive, Sacramento, California CA95833, Sacramento County

(12) 2-17, Akasaka 2-Chome, Minato-ku, Tokyo 107

(13) Kensal House, 553-579 Harrow Road, London W10 4RH

(14) Herzogstrasse 64, 80803 München

All of the above companies operate principally in their country of incorporation or registration. EMI also owns shares (directly and indirectly) in a number of other subsidiaries.

10.2 *Warner Music Group*

The principal subsidiaries and associated undertakings of Warner Music Group are as follows:

Name	Registered office*	Activity	Country/ state of organisation	Percentage owned
WCI Record Club Inc.		Holding company	Delaware, US	100
The Columbia House Company	N/A	Record club	New York, US	50
Elektra Entertainment Group Inc.		Recorded music	Delaware, US	100
Warner-Tamerlane Publishing Corp.	1	Music publishing	California, US	100
WB Music Corp.	2	Music publishing	California, US	100
Warner/Chappell Music, Inc.		Music publishing	Delaware, US	100
Warner Bros. Music International Inc.		Music publishing	Delaware, US	100
Warner Bros. Publications U.S. Inc.	3	Music publishing	New York, US	100
New Chappell Inc.		Holding company	Delaware, US	100
CPP/Belwin, Inc.		Music publishing	Delaware, US	100
Warner Music Group Inc.		Holding company	Delaware, US	100
London-Sire Records Inc.		Recorded music	Delaware, US	100
Warner Bros. Records Inc.		Recorded music	Delaware, US	100
Maverick Recording Company	N/A	Recorded music	California, US	50
Atlantic Recording Corporation		Recorded music	Delaware, US	100
Rhino Entertainment Company		Recorded music	Delaware, US	100
Warner-Elektra-Atlantic Corporation	3	Music distribution	New York, US	100
WEA International Inc.		Music distribution	Delaware, US	100
Warner Music Canada Ltd.	4	Music distribution	Canada	100
The Columbia House Company (Canada)	N/A	Record club	Canada	50
Warner Music Newco Limited	5	Holding company	England	100
Embleton Ltd.	6	Holding company	British Virgin Islands	100
London Records 90 Limited	7	Recorded music	England	100
Warner Special Products Inc.		Recorded music	Delaware, US	100
Warner Custom Music Corp.	1	Music promotion	California, US	100
WEA Manufacturing Inc.		Recorded music manufacturing	Delaware, US	100
Ivy Hill Corporation		Printing and packaging	Delaware, US	100

**Unless otherwise noted, the registered office for all of the above companies is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801*

1 *CT Corporation System, 818 West Seventh Street, Los Angeles, CA 90017, US*

2 *John Schulman, Esq., 4000 Warner Blvd, Burbank, CA 91522, US*

3 *Edward J. Weiss, Esq., 75 Rockefeller Plaza, New York, New York 10019, US*

4 *3751 Victoria Park Ave., Scarborough, Ontario, Canada M1W 3Z4*

5 *Inter Park House, 7 Down Street, London W1Y 7DS*

6 *PO Box 438 Tropic Isle Building, Wickhams Cay, Road Town, Tortola*

7 *Waldron House, 57-63 Old Church Street, London SW3 5BS*

11. PRINCIPAL INVESTMENTS

11.1 *EMI Group*

During the three financial years ended 31 March 2000 and the current financial year, the EMI Group has invested internal funds in various entities as follows:

(a) During the financial year ended 31 March 1998 the net cash consideration for the assets acquired was £179.3m. The assets acquired included a 50 per cent. interest in Jobete (a US music publishing catalogue), the remaining 50 per cent. in Priority Records (a US record label), Copacabana (a Brazilian music catalogue), CMC Records (a Danish record company), AV Music Publishers, Westwood Promotions (a US direct response music marketing company) and Narada Media (a US record label and distributor).

(b) During the financial year ended 31 March 1999, the net cash consideration for the assets acquired was £14.9m. The assets acquired included Assist (an Italian music publishing company), Higher Octave (a US recorded music company), and Quattro Musikverlag (a German music publishing company).

(c) During the financial year ended 31 March 2000, the net cash consideration for the assets acquired was £149.1 million. The assets acquired included substantially all of the Windswept Pacific music publishing catalogue, a 51 per cent. interest in Hit & Run Music Publishing, Pelago (an Italian music publishing company), Castalian (a US recorded music company), Be's Songs (a Belgian Music publishing company) and Norske Gram (a Norwegian recorded music company).

During the last financial year stakes were also acquired in various internet companies of which musicmaker.com Inc., Liquid Audio Inc., Digital On-Demand, Sanity.com, Preview Systems, Launch Media Inc., Supertracks Inc. and Entertainment Boulevard, Inc are more fully described in Section C of Part 3 of this document. Other than musicmaker.com Inc., all of the stakes acquired in these companies represent 15 per cent. or less of their share capital; EMI's initial interest in musicmaker.com Inc. was 50 per cent. and, following the initial public offering of musicmaker.com Inc., has reduced to just over 36 per cent. through the sale by EMI of part of its interest.

(d) During the current financial year, the net cash consideration for the assets acquired up to 30 May 2000 (the latest practicable date prior to the publication of this document), was no more than £15 million. The assets acquired include an investment in Blackground (a US recorded music company) and the remaining 40 per cent. minority interest in Octoarts EMI Music, Inc. (a Filipino recorded music company).

11.2 *Warner Music Group*

During the three years ended 31 December 1999, Warner Music Group has invested in various entities as follows:

(a) There were no businesses acquired in 1997.

(b) During 1998, there was redemption of the non-Warner Music Group partner's 50 per cent. interest in the Rhino Entertainment Company partnership (a US recorded music entity) for deferred consideration of £52 million. Additionally, Warner Music Group acquired a majority stake in Fonit Cetra (an Italian recorded music and music publishing company), as well as certain other smaller entities, for cash consideration of £4 million.

(c) During 1999, the deferred consideration due on the redemption of the non-Warner Music Group partner's 50 per cent. interest in the Rhino Entertainment Company partnership was revised upwards by £9 million. Additionally, there was net cash consideration of £140 million in relation to the acquisition of London Records (a UK recorded music company), and cash consideration of £5 million relating to the acquisition of various entities including the other 50 per cent. interest in China Records (a UK recorded music company) and the remaining share of Fonit Cetra (a majority stake was acquired in 1998).

Additionally, several music publishing copyrights and catalogues and other similar intangible assets were acquired for £13 million in 1997, £42 million in 1998 and £14 million in 1999.

Warner Music Group also acquired tangible assets, including assets in the course of construction, comprising primarily manufacturing equipment, computer equipment, leasehold improvements and fixtures and fittings, for £49 million in 1997, £53 million in 1998 and £83 million in 1999.

12. PRINCIPAL ESTABLISHMENTS

12.1 *EMI Group*

The following are the principal establishments of EMI Group:

Location	Principal activity	Area (square feet)	Freehold or leasehold
Penny Lane, Off Drakes Way, Swindon, Wiltshire SN3 3LP, UK	Manufacturing operations	120,385	Freehold
2-2-17 Akasaka, Minato-ku, Tokyo 107, Japan	Offices	18,391	Freehold
986 Hodosawa, Gotemba City, Shizuoka 412-8505, Japan	Manufacturing operations	797,843	Freehold
Industrielaan 24, 5406 XC Uden, The Netherlands	Manufacturing operations	753,200	Freehold
1 Capitol Way, Jacksonville, Illinois IL6260, US	Manufacturing operations	854,216	Freehold

12.2 *Warner Music Group*

The following are the principal establishments of Warner Music Group:

Location	Principal activity	Area (square feet)	Freehold or leasehold
75 Rockefeller Plaza, Rockefeller Center, New York, New York, US	Executive and administrative offices	170,000	Leasehold
1290 Ave. of the Americas New York, New York, US	Offices	273,800	Leasehold
1400 and 1444 East Lackawanna Avenue, Olyphant, Pennsylvania, US	Manufacturing, warehouses, distribution and office space	1,012,000	Freehold
Max-Planck Strasse 1-9, Alsdorf, Germany	Manufacturing, distribution and office Space	269,000	Freehold
4025 3rd Parkway, Terre Haute, Indiana, US	Manufacturing and office space	269,000	Leasehold
83 Baker Street, London, UK	Offices	27,104	Leasehold

13. UK TAXATION IMPLICATIONS OF DIVIDENDS RECEIVED ON EMI ORDINARY SHARES AND THE SPECIAL CASH PAYMENT

The following summary is intended as a general guide only and relates only to the UK taxation treatment of dividends received on EMI Ordinary Shares, the Special Cash Payment and the accompanying Consolidation. It is based on current UK law and current published Inland Revenue practice for holders of EMI Ordinary Shares who (except where otherwise indicated) are resident in the UK for tax purposes, who are the beneficial owners of those shares and who hold them as investments. Shareholders who are in any doubt about their tax position, or who are subject to tax in any jurisdiction other than the UK, should consult their own appropriate professional advisers.

13.1 *Dividends on EMI Ordinary Shares*

There is no UK withholding tax on dividends, nor will EMI be liable to account for advance corporation tax in respect of the payment of any dividend.

An individual holder of EMI Ordinary Shares should generally be entitled to a tax credit in respect of any dividends paid by EMI which he or she can offset against his or her total income tax liability. The amount of the tax credit for dividends paid is equal to 10 per cent. of the aggregate of the dividend and the tax credit (the "gross dividend"), which is also equal to one-ninth of the amount of the net cash dividend. The gross dividend is included in computing the income of such an individual holder for UK tax purposes.

The rate of income tax on dividends is 10 per cent. of the gross dividend for taxpayers liable to income tax at rates not exceeding the basic rate. The tax credit will discharge the income tax liability on the dividend of an individual holder of EMI Ordinary Shares who is not liable to income tax at a rate higher than the basic rate. A higher rate taxpayer will be liable to tax on the dividend at the rate of 32.5 per cent. of the gross dividend; the tax credit will be set against his or her tax liability on the dividend and he or she will also have to account for additional tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the net cash dividend received) to the extent that the gross dividend, being treated as the top slice of his or her income, falls above the threshold for higher rate income tax.

Individuals not liable to income tax, pension funds and charities being UK resident holders of EMI Ordinary Shares who are not liable to UK tax on the dividends received, will generally not be entitled to claim repayment of the tax credit attaching to dividends paid by EMI although charities will generally be entitled to limited compensation in lieu of repayable tax credits until 5 April 2004. Tax credits on dividends paid by EMI in respect of EMI Ordinary Shares held in a Personal Equity Plan ("PEP") or an Individual Savings Account ("ISA") will generally be repayable until 5 April 2004.

A UK resident corporate holder of EMI Ordinary Shares will not normally be liable to corporation tax in respect of dividends received in respect of those shares. Such a holder will not be able to claim repayment of tax credits attaching to dividends.

Holders of EMI Ordinary Shares who are not resident in the UK for tax purposes will generally not benefit from any entitlement to a refund of any part of the tax credit but should consult their own tax advisers concerning their tax liabilities in the UK and any other country on dividends received in respect of those shares.

13.2 *Special Cash Payment*

Shareholders receiving the Special Cash Payment will generally be taxed in the same way as if they had received an ordinary dividend on their EMI Ordinary Shares, and, accordingly, the tax treatment of the Special Cash Payment will generally be as set out above. Shareholders are, however, referred to the comments in paragraph 13.4 below in relation to the application of section 703 of the Income and Corporation Taxes Act 1988 ("Taxes Act").

13.3 *The Consolidation*

It is expected that the UK taxation treatment of the Consolidation will be as follows:

(a) the new EMI Ordinary Shares arising from the Consolidation will result from a reorganisation of the share capital of EMI. Accordingly, subject as mentioned in (b) below, a shareholder will not be treated as making a disposal of all or part of his or her holding of EMI Ordinary Shares by reason of the Consolidation being implemented, and the new EMI Ordinary Shares which replace a shareholder's holding of existing EMI Ordinary Shares (the "new holding") as a result of the Consolidation will be treated as the same asset acquired at the same time as the shareholder's holding of existing EMI Ordinary Shares was acquired;

(b) to the extent that a shareholder receives cash by virtue of a sale on his or her behalf of any new EMI Ordinary Shares to which he or she has a fractional entitlement, he or she should not in practice normally be treated as making a part disposal of his or her holding of EMI Ordinary Shares, the proceeds instead being deducted from the base cost of the shareholder's holding; and

(c) on a subsequent disposal of the whole or part of the new EMI Ordinary Shares comprised in the new holding, a shareholder may, depending on his or her circumstances, be subject to tax on the amount of any chargeable gain realised.

13.4 *Section 703 of the Taxes Act*

Under the provisions of section 703 of the Taxes Act, the Inland Revenue can, in certain circumstances, counteract tax advantages arising in relation to the distribution of company profits. Clearance will be sought under section 707 of the Taxes Act that the Inland Revenue will not seek to apply those provisions in relation to the Special Cash Payment.

If an unqualified clearance is obtained from the Inland Revenue under section 707 of the Taxes Act, then the Inland Revenue will not seek to apply the provisions of section 703 of the Taxes Act in relation to the Special Cash Payment.

If an unqualified clearance is not obtained from the Inland Revenue under section 707 of the Taxes Act, then the Inland Revenue may, in certain circumstances, seek to apply the provisions of section 703 of the Taxes Act in relation to the Special Cash Payment.

However, EMI has been advised that the provisions of section 703 of the Taxes Act should not generally be material to existing holders of EMI Ordinary Shares who receive the Special Cash Payment, other than charities, shareholders holding shares through PEPs and ISAs, and companies with surplus advance corporation tax ("ACT"). As regards such shareholders the provisions of section 703 of the Taxes Act might enable the Inland Revenue, in certain circumstances, to deny the payments otherwise due to such holders as mentioned above (in relation to the tax credit attaching to the Special Cash Payment) or, in the case of companies with surplus ACT, to prevent the Special Cash Payment being taken into account in calculating their shadow ACT.

EMI has been further advised that the provisions of section 703 of the Taxes Act should not apply to a person in respect of transactions which that person can show were carried out either for bona fide commercial reasons or in the ordinary course of making or managing investments, and where none of them had as their main object, or one of their main objects, to enable tax advantages to be obtained.

14. FINANCING ARRANGEMENTS

14.1 *EMI facility*

On the Closing Date, WEM Finance, WEM US and WEM UK (the "Lenders") and EMI will enter into a credit facility agreement under which the Lenders will extend, jointly and severally, to EMI a £150 million revolving credit facility (such maximum amount to be reduced on a pound for pound basis as and when EMI's obligations under its loan facility to HMV Media reduce).

EMI may borrow to pay liabilities to the extent attributable to actions or omissions or conditions first occurring prior to Closing (including the HMV Media loan) or to pay corporate overheads and taxes not covered by prior tax distributions.

EMI will not be entitled to make any drawdowns after the fifth anniversary of Closing, but will be entitled to make repayments, penalty-free, at any time.

The interest rate will be equal to WEM Finance's cost of borrowing at market rates plus 150 basis points per annum, and interest will be payable quarterly. Interest may be capitalised within the overall loan limit until the seventh anniversary of Closing.

EMI will be obliged to make mandatory repayments until the fifth anniversary of Closing equal to 75 per cent. of distributions received from Warner EMI Music in any year in excess of the Distribution Level (as defined in paragraph 4.2 of Section A of Part 8 of this document), such percentage rising to 100 per cent. between the fifth and tenth anniversaries of Closing. EMI is also obliged to prepay loans out of the disposal proceeds of the EMI Retained Assets subject to a de minimis threshold. After the seventh anniversary of Closing, amounts repaid must equal at least one-third of the balance outstanding on the seventh anniversary of Closing. The balance must be cleared on the tenth anniversary of Closing. Amounts mandatorily repaid may not be re-borrowed.

The facility will become mandatorily prepayable in full at the option of the lenders in the event of a Change of Control of EMI (as defined in paragraph 6.3 of Section A of Part 8 of this document but excluding the references to insolvency and administration therein) where the person acquiring control is not Time Warner, AOL or persons acting in concert with either. EMI will be subject to covenants relating to the maintenance of authorisations and compliance with laws, a restriction on creating security (subject to certain exceptions), a restriction on changes of business, a restriction on making investments after the fifth anniversary of Closing (subject to certain exceptions) and a restriction on the payment of dividends by EMI in excess of the Distribution Level (as defined above).

Each of the entities which are to act as the holding companies (the "EMI Facility Guarantors") in the UK and the US for EMI's interest in WEM Finance, WEM US and WEM UK will guarantee EMI's obligations under the facility where their respective guarantees are limited as to recourse to amounts received by way of distribution from WEM Finance, WEM UK and WEM US and amounts which can be recovered under the security (see below).

Each EMI Facility Guarantor will pledge 5 per cent. of its interest in WEM UK and WEM US, respectively, in favour of WEM Finance, WEM UK and WEM US by way of security for its guarantee under security agreements to be entered into on the Closing Date.

EMI is permitted to use its indirect equity interest in Warner EMI Music as security for third party finance in the event that, inter alia, the provider of finance: (i) is an independent financial institution; and (ii) agrees to take security subject to the Combination Agreement and certain other agreements in connection with the Combination.

The following will represent events of default: non-payment; breach of obligations under the Combination Agreement and certain other agreements in connection with the Combination; cross-default to other financial indebtedness of the EMI Group being not less than £5,000,000; certain insolvency events and proceedings; unlawfulness; and any EMI Facility Guarantor ceasing to be a subsidiary of EMI.

14.2 *Warner EMI Music facilities*

(a) On 23 May 2000 WEM Finance entered into three substantially identical Credit Agreements (together, the "Bank Credit Facilities") with, as lenders (together, the "Bank Lenders"), (i) ABN-AMRO Bank, N.V. and Bank of America, N.A., (ii) The Chase Manhattan Bank and Citibank, N.A. and (iii) Morgan Stanley Senior Funding, Inc. and UBS AG, Stamford Branch under which such lenders extended to WEM Finance revolving credit facilities totalling $4,500 million.

Loans and letters of credit under the Bank Credit Facilities will be available in US Dollars and subject to sub-limits in Euros, Sterling and Yen.

WEM Finance may borrow and obtain letters of credit under the Bank Credit Facilities for the general corporate purposes of Warner EMI Music, including advances under the EMI facility referred to in 14.1 above and loans by WEM Finance to WEM US, WEM UK and their subsidiaries.

The obligations of WEM Finance under the Bank Credit Facilities will be guaranteed by each direct holder of any equity interest in WEM Finance, WEM US or WEM UK (each such holder a "Guarantor").

Drawings under the Bank Credit Facilities may, subject to the conditions contained therein, be made at any time during the period (the "Availability Period") from the effective date of the Bank Credit Facilities through the 364th day thereafter or such later date as the Bank Lenders may agree in their sole discretion.

Loans under the Bank Credit Facilities will be due and payable on the date that is 18 months after the last day of the Availability Period. In addition, the commitments under the Bank Credit Facilities will be reduced by an amount equal to: (i) the proceeds of any indebtedness incurred, or loan commitments obtained, by WEM Finance (other than under the Bank Credit Facilities or the Time Warner Facilities (as defined below)) as replacement financing for the Bank Credit Facilities; and (ii) the proceeds of certain asset sales, if any, by Warner EMI Music (or by Time Warner or EMI of assets that would otherwise have been contributed to Warner EMI Music under the Combination Agreement) after a period for re-investment in the case of certain proceeds.

Drawings and issuances of letters of credit under the Bank Credit Facilities will be subject to the truth of the representations and warranties contained in, and the absence of any default under, the Bank Credit Facilities on and as of the date of such drawing or issuance. In addition, the initial loans and letters of credit will be subject to: (i) WEM US and WEM UK having been formed and each Guarantor having guaranteed all of WEM Finance's obligations under the Bank Credit Facilities; (ii) the transfer of substantially all of the assets of Warner Music Group and EMI Music to WEM US and WEM UK in accordance with the Combination Agreement; and (iii) WEM Finance having borrowed at least $1,100 million under the Time Warner Subordinated Facility (as defined below).

Interest on loans under the Bank Credit Facilities will be, at WEM Finance's election, at: (i) LIBOR (as defined in the Bank Credit Facilities) plus a margin based on grid pricing which will in no case be higher than ½ per cent.; or (ii) the Alternate Base Rate (as defined in the Bank Credit Facilities). In addition, WEM Finance must pay a facility fee on the aggregate amount of the Bank Credit Facilities from the Closing Date at a rate which will in no case be higher than 7.5 basis points, and a commitment fee on the unused amount of the Bank Credit Facilities from the Closing Date at a rate which will in no case be higher than 12.5 basis points.

The Bank Credit Facilities contain covenants, applicable to WEM Finance, WEM US, WEM UK, the subsidiaries of WEM US and WEM UK and each Guarantor, that limit, among other things, the incurrence of indebtedness, liens, mergers, consolidations and sales of all or substantially all of their assets, investments, the payment of dividends or other distributions by the Guarantors while an event of default exists, hedging agreements, transactions with affiliates, restrictive agreements, and that require the maintenance of a ratio of Combined Indebtedness (as defined in the Bank Credit Facilities) to Combined EBITDA (as so defined).

The Bank Credit Facilities also include events of default for non-payment, material misrepresentation, covenant non-compliance, a cross default to certain other indebtedness, bankruptcy, certain judgments, certain pension events and a Change in Control (as defined in the Bank Credit Facilities).

(b) On 23 May 2000 WEM Finance also entered into a Credit Agreement with Time Warner under which Time Warner extended to WEM Finance two revolving credit facilities in the respective amounts of $1,500 million and £150 million.

The £150 million facility (the "Time Warner Senior Facility") will rank *pari passu* with the Bank Credit Facilities and the $1,500 million facility (the "Time Warner Subordinated Facility" and, together with the Time Warner Senior Facility, the "Time Warner Facilities") will be subordinated to the Bank Credit Facilities and the Time Warner Senior Facility, but not to any refinancings thereof, pursuant to an intercreditor agreement to be entered into on or before the Closing Date among Time Warner, the lenders, WEM Finance and the Guarantors. Under the Bank Credit Facilities, WEM Finance and the Guarantors are not permitted to repay any principal of loans made under the Time Warner Subordinated Facility so long as the Bank Credit Facilities remain outstanding.

Loans under the Time Warner Facilities may be used for the general corporate purposes of Warner EMI Music, including advances under the EMI facility referred to in 14.1 above and loans by WEM Finance to WEM US, WEM UK and their subsidiaries.

Drawings under the Time Warner Facilities may, subject to the conditions contained therein, be made at any time during the period (the "Time Warner Availability Period") from the Closing Date to the 30th day after Time Warner elects to terminate the Time Warner Facilities, which election may not be made by Time Warner prior to the date that is 18 months after the Closing Date.

The obligations of WEM Finance under the Time Warner Facilities will be guaranteed by each of the Guarantors (on a subordinated basis in the case of the Time Warner Subordinated Facility).

Loans under the Time Warner Facilities will be due and payable on the last day of the Time Warner Availability Period. In addition, the commitments under the Time Warner Senior Facility will be reduced, after the commitments under the Bank Credit Facilities have been reduced to zero, by an amount equal to: (i) the proceeds of any indebtedness incurred, or commitments obtained, by WEM Finance (other than under the Bank Credit Facilities and the Time Warner Facilities) as replacement financing; and (ii) the proceeds of certain asset sales, if any, by Warner EMI Music (or by Time Warner or EMI of assets that would otherwise have been contributed to Warner EMI

Music under the Combination Agreement) after a period for re-investment in the case of certain proceeds.

The conditions to borrowing under the Time Warner Facilities are substantially similar to those contained in the Bank Credit Facilities.

Interest, facility fees and commitment fees under the Time Warner Facilities will be equivalent to those under the Bank Credit Facilities except that, following the termination or refinancing of the Bank Credit Facilities, interest on loans made thereafter under the Time Warner Facilities will accrue at rates per annum equal to the greater of: (i) the weighted average interest rate paid by WEM Finance on all of its other then outstanding senior indebtedness; and (ii) the average rate of interest then payable by Time Warner on loans of a similar type made to Time Warner under its then existing revolving credit facilities.

The Time Warner Facilities contain covenants applicable to the Guarantors that are subsidiaries of EMI (the "EMI Guarantors") that limit indebtedness, liens, mergers, consolidations and sales of all or substantially all of the assets of Warner EMI Music, investments, hedging agreements, the payment of dividends or other distributions while an event of default exists, transactions with affiliates and restrictive agreements.

The Time Warner Facilities also include events of default for non-payment, material misrepresentation, covenant non-compliance, a cross default to certain indebtedness, bankruptcy, certain judgments and failure of the EMI Guarantors to hold at least 25 per cent. of the equity of WEM US or WEM UK.

Time Warner has agreed that, rather than leave outstanding as debt of Warner EMI Music the debt owed to Time Warner which it will contribute at Closing, Warner EMI Music will repay such debt with the proceeds of new loans to be made by Time Warner to Warner EMI Music pursuant to the Time Warner Subordinated Facility. The amount of such facility that will be drawn at Closing to repay such debt will depend on cash movements prior to Closing, but at 31 December 1999 would have been £820.9 million.

(c) A subsidiary of EMI, Capitol Records Inc., has issued $500,000,000 $8\frac{3}{8}$ per cent. Guaranteed Notes due 2009, which EMI has guaranteed (see paragraph 15.1(h) below). Capitol Records Inc. will be contributed to Warner EMI Music at Closing and, if the guarantee from EMI remains outstanding, EMI will receive the benefit of a counter-indemnity from Warner EMI Music.

(d) The borrower under the EMI Group's existing bank facilities will be contributed to Warner EMI Music. However, virtually all of these facilities will be paid down and terminated at or shortly after Closing.

(e) Subject, among other things, to market conditions, WEM Finance may refinance or replace all or part of the facilities described above in either or both of the bank or capital markets prior to their stated maturity, which refinancing or replacement could occur before and/or after the Closing Date.

15. MATERIAL CONTRACTS

15.1 *EMI*

The only contracts (other than contracts entered into by a member of the EMI Group in the ordinary course of business) which: (i) were entered into by any member of the EMI Group within the two years immediately preceding the publication of this document which are or may be material, or (ii) were entered into by any member of the EMI Group and which contain any provision under which any member of the EMI Group has any obligation or entitlement which is or may be material to the EMI Group as at the date of this document, are as follows:

(a) The Combination Agreement which is summarised in Part 9 of this document.

(b) The Partnership Agreement in respect of WEM Finance which is summarised in Section A of Part 8 of this document.

(c) EMI is a party to a sponsor's agreement dated 1 June 2000 with UBS Warburg. The agreement deals with the appointment of UBS Warburg as EMI's sponsor in connection with the relisting of the EMI Ordinary Shares on or after Closing as described in this Circular. The agreement contains various obligations on EMI, *inter alia*, with respect to the relisting. The agreement also contains various warranties on the part of EMI and an indemnity in favour of UBS Warburg (and other members of its group) in respect of liability and losses suffered in connection with, inter alia, the provision of UBS Warburg's services whilst acting as EMI's sponsor (other than where any such losses or liabilities are found to have resulted from the wilful default or negligence of UBS Warburg). The agreement may be terminated upon the occurrence of certain events.

(d) Pursuant to an asset purchase agreement dated 28 July 1999, certain subsidiaries of EMI acquired a substantial portion of the music publishing catalogue of Windswept Pacific, a music publishing business controlled by Fuji Pacific Music, Inc ("Fuji"). The consideration for the acquisition was \$196 million in cash, and in addition the purchasers assumed royalty liabilities totalling approximately \$10 million. As part of the transaction, EMI's Japanese music publishing subsidiary entered into an agreement dated 28 July, 1999 with Fuji (the "Management Agreement"), under which Fuji will manage the EMI music publishing catalogue in Japan for a specified term. The Management Agreement stipulates that in the event of a "change of control" of EMI and/or its music publishing operations, Fuji shall have the option to terminate the Management Agreement and to receive a specified termination fee.

(e) On 28 March 1998, EMI disposed of its HMV music retailing and Dillons book retailing business to HMV Media. EMI now has a 42.65 per cent. (39.90 per cent. fully diluted) equity stake in HMV Media, and 18.08 and 49.15 per cent. respectively of HMV Media's Senior "A" Preference Shares and Junior Preference Shares. As part of the sale agreements EMI entered into: (i) a working capital facility agreement dated 28 March 1998, under which it agreed to make available to HMV Media, for a term coterminous with the senior facilities provided by certain banks, a £50 million working capital revolving credit facility which may be drawn down only to the extent that all the facilities available to HMV Media and its subsidiaries have been fully drawn. As at 30 May 2000 (being the latest practicable date prior to the publication of this document) £8 million has been drawn down under the EMI working capital facility (EMI has been notified by HMV Media of its intention to draw down £26 million on 2 June 2000); and (ii) a Deed of Indemnity dated 28 March 1998 under which HMV Media agreed to indemnify EMI against any payments made by EMI under certain guarantees and indemnities, including approximately 105 property leases. See also note 33(i) in Part 5 of this document.

(f) EMI's subsidiary EMI Publishing Holdings, Inc. is party to a shareholders' agreement dated 1 July 1997 in respect of its 50 per cent. shareholdings in Jobete Music Co., Inc. and Stone Diamond Music Corporation (together, the "companies"). The shareholders' agreement contains provisions as to, inter alia, transfers of shares by the shareholders and corporate governance. In addition, during the period of 10 years commencing on 1 July 2002, the other shareholder has the option to require EMI Publishing Holdings Inc. to purchase its shares for a consideration calculated by reference to the combined net publishers' share of the companies in the preceding year, with a minimum price of \$168 million and a maximum price of \$250 million. The option may be exercised earlier than 1 July 2002 in the event, inter alia, of the death of Mr Berry Gordy or the failure of Mr Martin Bandier to serve as a director of either of the companies.

(g) EMI is a party to a shareholders' agreement dated 3 October 1994 with Toshiba Corporation in respect of a joint venture company in Japan, Toshiba-EMI, in which EMI indirectly holds a 55 per cent. stake. The agreement contains certain restrictions on the transfer of shares in Toshiba-EMI and certain agreements as to the business, management, governance and dividend policy of Toshiba-EMI. The agreement also sets out the rights and obligations of EMI and Toshiba Corporation if either party wishes to sell its shares in Toshiba-EMI, if either party is subject to a change of control or if EMI transfers more than 50 per cent. of its music business to a third party. In certain circumstances, these provisions could result in EMI becoming obliged to acquire Toshiba Corporation's shares in Toshiba-EMI at a price determined in accordance with a specified formula or at a fair market value. The agreement also contains certain termination provisions, and certain covenants, including covenants from EMI to provide A&R, marketing and certain other support to Toshiba-EMI on terms no less favourable than arm's length and to license such of its music repertoire as EMI considers appropriate to Toshiba-EMI on commercial terms. EMI and

Toshiba Corporation agree not to compete against Toshiba-EMI in Japan in the pure music business (the production and marketing of music software which consists solely of recorded music sound information).

(h) On 27 August 1999, a subsidiary of EMI, Capitol Records, Inc. (the "Issuer"), a Delaware corporation, issued $500,000,000 8⅜ per cent. Guaranteed Notes due 2009 (the "Notes"). The Notes are fully and unconditionally guaranteed by EMI. The issue price for the Notes was 99.480 per cent. of the principal amount thereof. The maturity date for the Notes is 15 August 2009. The Notes bear interest from the date of their original issuance at the rate of 8⅜ per cent. per annum, payable half-yearly in arrears on 15 February and 15 August of each year (commencing on 15 February 2000). The Issuer and EMI have agreed to certain covenants with respect to the Notes, including, among other things, a limitation on liens and conditions relating to consolidation, merger and sale of assets. The occurrence of certain events in respect of the Issuer, EMI and principal subsidiaries, including acceleration of certain other indebtedness, will permit acceleration of the Notes. The Notes include provisions relating to early redemption of the Notes by the Issuer at redemption prices based upon the present values of the remaining scheduled payments on the Notes. Subject to certain exceptions and limitations, the Issuer or EMI will gross up payments under the Notes or the guarantee in respect of any tax deductions or withholdings. If a change of control event (as defined) occurs in respect of the Issuer or EMI, each holder of the Notes will have the right to require the Issuer to repurchase all or any part of such holder's notes at a repurchase price equal to 101 per cent. of the principal amount thereof, together with accrued and unpaid interest, if any, to the date of repurchase. The Notes are subject to certain restrictions on resale or transfer. The proceeds to the Issuer from the offering of the Notes were to be used to repay certain outstanding borrowings of an affiliate of the Issuer under banking facilities in the US and an internal loan entered into to fund the acquisition of the Windswept catalogue.

(i) EMI is party to a deed of general indemnity dated 22 July 1996 with Thorn Limited (formerly Thorn plc) relating to the demerger of Thorn Limited. Thorn Limited (and its subsidiaries) have agreed to indemnify EMI against liabilities relating to the Thorn businesses which were de-merged on 19 August 1996. The parties also agreed that losses relating to potential legal liabilities arising out of the pre-demerger reorganisation would be shared equally. Under the deed EMI is obliged to indemnify Thorn Limited (and its subsidiaries) against losses and liabilities which do not relate to the Thorn businesses.

(j) EMI is party to four deeds of tax indemnity dated 22 July 1996 with, inter alia, Thorn group companies which relate to the demerger of Thorn Limited. Broadly, they provide that EMI is liable for all UK corporation tax liabilities for the periods ended on or before 31 March 1996 and that Thorn Limited will reimburse EMI for US federal tax liabilities in relation to Thorn group companies for the period 1 April 1996 to 16 August 1996. EMI and Thorn each agreed to bear the corporate tax liabilities attributable to their respective group companies arising in all other relevant jurisdictions, except that EMI agreed to accept liability for tax liabilities of Thorn International B.V. up until the demerger.

15.2 *Warner Music Group*

The only contracts (other than contracts entered into by a member of Warner Music Group in the ordinary course of business) which: (i) were entered into by a member of Warner Music Group within the two years immediately preceding the publication of this document which are or may be material; or (ii) were entered into by any member of the Warner Music Group and which contain any provision under which a member of Warner Music Group has any obligation or entitlement which is or may be material to it as at the date of this document, are as follows:

(a) The agreement dated 25 June 1998 with Warner Home Video, a division of Time Warner Entertainment Company, L.P. which is summarised in paragraph 3.4 of Section B of Part 8 of this document.

(b) On 30 December 1999, Warner Music Newco Limited ("Newco"), a company registered in England and Wales, purchased the entire issued share capital of Embleton Limited, a British Virgin Islands company, from Latour Trustees (Jersey) Limited (the "Trustee"), a Jersey company, for a total cash consideration of £140 million. Embleton Limited is the holding company for the recorded music and music publishing operations referred to as London Records. The acquisition agreement contains customary representations and warranties. With respect to most of the representations and warranties, claims cannot be made after the second anniversary of the closing date. The Trustee has an option to purchase the entire issued share capital of Newco at fair market value under certain circumstances where Roger Ames ceases to be employed by Warner Music Group.

(c) Effective as of 1 January 1998 (by agreements entered into on 19 May 1998), Rhino Entertainment Company, a California general partnership 50 per cent. owned by Rhino Records, Inc., a California corporation, and 50 per cent. owned by Atlantic Rhino Ventures Inc., a Delaware corporation, redeemed Rhino Records, Inc.'s partnership interest. The redemption price is $51 million payable on 19 May 2003 plus a formula-based contingent payment calculated to be approximately $49 million payable on or before 1 March 2000. Although the interest on the contingent payment (approximately $6.9 million) was paid on the appointed date on 17 May 2000 the parties entered into agreements pursuant to which the $49 million contingent payment will be payable on 19 May 2003. The transaction documents contain customary representations and warranties, the bulk of which expired on 18 May 2000.

(d) The Partnership Agreement in respect of WEM Finance summarised in Section C of Part 8 of this document.

16. LITIGATION

16.1 *EMI Group*

Save as described below, there are no and have been no legal or arbitral proceedings (including any such proceedings which are pending or threatened of which EMI is aware) involving members of the EMI Group which may have, or have had, during the 12 months preceding the date of this document, a significant effect on the financial position of the EMI Group:

(a) On 11 April 1997, the Federal Trade Commission ("FTC") notified Thorn EMI Inc. that it had commenced a preliminary investigation into whether EMI and others may have violated, or may be violating, laws against unfair competition by the adoption, implementation, or maintenance of minimum advertising pricing programmes. On 10 May 2000, EMI entered into an agreement containing a consent order (the "Consent Agreement") with the staff of the FTC with respect to the FTC's investigation of this matter. Among other things, EMI has agreed that for seven years it will not make the receipt of any funds for co-operative advertising of its recorded music product contingent upon the price or price level at which such product is advertised or promoted. The Consent Agreement received initial approval by the FTC Commissioners on 10 May 2000, and is subject to public comment for 30 days thereafter, after which the Commissioners will decide whether to make the Consent Agreement final. Following the FTC's announcement of the Consent Agreement, plaintiffs have filed purported class action suits in several federal and state courts, alleging that the minimum advertised price programmes violated federal or state antitrust statutes. Whilst these claims have only recently been filed, on the basis of information presently available, EMI believes that the claims are without merit. However, any adverse verdict could result in a material loss to EMI. Due to the lack of specificity of plaintiffs' claims and as those cases are at an early stage, a range of potential loss is not determinable at this time.

(b) On 25 July 1996, as part of an investigation to determine whether there is, has been, or may be a conspiracy to fix the prices of CDs or conduct consisting of unfair methods of competition or unfair trade practices in the sale and marketing of CDs, the Office of the Attorney General of the State of Florida served EMI Music Distribution ("EMD") with a Civil Investigative Demand ("CID"). The investigation is continuing. In addition, EMD has been informed that the Office of the Attorney General of the State of Florida has shared certain documents produced pursuant to the CID with other State Attorneys General, including those of New York and Illinois. As a result of such investigations, the Florida Attorney General and/or other State Attorneys General may seek declaratory, injunctive, or monetary relief on behalf of consumers.

(c) On 30 May 1995, *Digital Distribution Inc. d/b/a Compact Disc Warehouse v. CEMA Distribution et al* was filed in US District Court for the Central District of California. The plaintiff, purportedly representing a class of direct purchasers of CDs, claimed several companies that distribute CDs to wholesalers and retailers, including CEMA Distribution (later EMD), had violated federal antitrust laws by engaging in a conspiracy to fix prices of CDs, and sought injunctive relief and treble damages. The District Court granted the defendants' motion to dismiss on 9 January 1996, but the US Court of Appeals for the Ninth Circuit subsequently reversed that decision. On 22 April 1998, the Judicial Panel on Multidistrict Litigation consolidated the case with four other pending cases, for pretrial purposes, in the Central District of California. These other cases include: *Chandu Dani d/b/a Compact Disc Warehouse and Record Revolution v. EMI Music Distribution et al.* (C.D. Cal. 1997); *T. Obie, Inc. d/b/a Chestnut Hill Compact Disc v. EMI Music Distribution et al.* (S.D.N.Y. 1997); *Third Street Jazz and Rock Holding Corporation v. EMI Music Distribution et al* (C.D. Cal. 1997); and *Nathan Muchnick, Inc. v. Sony Music Entertainment, Inc. et. al* (S.D.N.Y. 1998). Earlier this year, the complaints in the *T. Obie and Third Street Jazz* cases were voluntarily dismissed by the plaintiffs. On 24 May 2000, the District Court denied plaintiffs' motion to certify the purported class. Plaintiffs' counsel have indicated their intention to appeal that decision and, meanwhile, to continue to prosecute the law suit on behalf of the four remaining retailer plaintiffs. The District Court has currently scheduled the trial to commence on 17 October 2000. EMI believes the case is without merit. If an appeal ultimately results in a class being certified, an adverse verdict thereafter could result in material loss to EMI. However, due to the lack of specificity of plaintiffs' claims and as a class has not been certified, a range of potential loss is not determinable at this time.

(d) In *Ottinger & Silvey et al. v. EMI Music Distribution, Inc., et al.*, plaintiffs commenced suit on 17 February 1998 in the Circuit Court of Cocke County, Tennessee. Plaintiffs purport to bring the suit on behalf of the persons who indirectly purchased CDs from 29 January 1993 to the present from six companies (including EMD) in Alabama, Arizona, California, the District of Columbia, Florida, Kansas, Maine, Michigan, Minnesota, Mississippi, New Mexico, North Carolina, North Dakota, South Dakota, Tennessee, West Virginia, and Wisconsin. Plaintiffs claim that defendants are engaged in a conspiracy to fix CD prices, in violation of the antitrust, unfair trade practices, and consumer protection statutes of each of these jurisdictions. On 11 May 1998, defendants filed a motion to dismiss the complaint for failure to state a cause of action. Plaintiffs have not yet responded to the motion. On 12 May 2000, *Marbry v. EMI Music Distribution Inc et al.*, which makes allegations very similar to those in the *Ottinger* case, was filed in the District of Columbia Superior Court. Although EMI believes these cases are without any merit, an adverse verdict could result in a material loss to EMI. Due to the lack of specificity of plaintiffs' claims, a range of potential loss is not determinable at this time.

(e) On 25 February 2000, *Rosenfeld v. musicmaker.com, Inc. et al.*, was filed in the US District Court for the Central District of California (Case No. 00-02018). The case has not yet been served. The plaintiff, purporting to act on behalf of a class of plaintiffs consisting of investors who purchased the common stock of musicmaker.com prior to 15 November 1999, alleges that as a result of allegedly false and misleading statements concerning the licensing arrangement between Virgin Holdings, Inc., an indirect wholly owned subsidiary of EMI, and musicmaker, the price of musicmaker.com's stock was artificially high. Plaintiff seeks compensatory damages, recission, costs, fees, and other remedies. Demand has been made on behalf of the EMI entities for indemnification from musicmaker.com under the terms of the agreements between musicmaker.com and Virgin Holdings, Inc. Five other similar actions have been filed including *Mayer v. musicmaker.com et al.*, US District of California, Case No. 00-CV-2215, filed 5 March 2000. These litigations are at an early stage but, on the basis of information presently available, EMI believes that these claims are unlikely to result in material loss to EMI. Any adverse verdict could result in material loss to EMI but, as the cases are at an early stage and no classes have yet been certified, a range of potential loss is not determinable at this time.

16.2 *Warner Music Group*

Save as described below, there are no and have been no legal or arbitral proceedings (including any such proceedings which are pending or threatened of which Warner Music Group is aware) involving Warner Music Group which may have, or may have had, during the 12 months preceding the date of this document, a significant effect on Warner Music Group's financial position:

(a) On 11 April 1997, the FTC notified Warner-Elektra-Atlantic Corporation ("WEA Corp.") that it had commenced a preliminary investigation into whether WEA Corp. and others may have violated, or may be violating, laws against unfair competition by the adoption, implementation, or maintenance of minimum advertising pricing programmes. On 29 March 2000, Time Warner entered into an agreement containing a consent order (the "Consent Agreement") with the staff of the FTC with respect to the FTC's investigation of this matter. Among other things, Time Warner has agreed that for seven years it will not make the receipt of any funds for co-operative advertising of its recorded music product contingent upon the price or price level at which such product is advertised or promoted. The Consent Agreement received initial approval by the FTC Commissioners on 10 May 2000, and is subject to public comment for 30 days thereafter, after which the Commissioners will decide whether to make the Consent Agreement final. Following the FTC's announcement of the Consent Agreement, plaintiffs have filed purported class action suits in several federal and state courts, alleging that the minimum advertised price programmes violated federal or state antitrust statutes. Whilst these claims have only recently been filed, on the basis of information presently available, Time Warner believes that the claims are without merit. However, any adverse verdict could result in a material loss to Warner Music Group. Due to the lack of specificity of plaintiffs' claims and as these cases are at an early stage, a range of potential loss is not determinable at this time.

(b) On 25 July 1996, as part of an investigation to determine whether there is, has been, or may be a conspiracy to fix the prices of CDs or conduct consisting of unfair methods of competition or unfair trade practices in the sale and marketing of CDs, the Office of the Attorney General of the State of Florida served WEA Corp. with a CID. The investigation is continuing. In addition, WEA Corp. has been informed that the Office of the Attorney General of the State of Florida has shared certain documents produced pursuant to the CID with other State Attorneys General, including those of New York and Illinois. As a result of such investigations, the Florida Attorney General and/or other State Attorneys General may seek declaratory, injunctive, or monetary relief on behalf of consumers.

(c) On 30 May 1995, *Digital Distribution Inc. d/b/a Compact Disc Warehouse v. CEMA Distribution et al* was filed in US District Court for the Central District of California. The plaintiff, purportedly representing a class of direct purchasers of CDs, claimed several companies that distribute CDs to wholesalers and retailers, including WEA Corp., had violated federal antitrust laws by engaging in a conspiracy to fix prices of CDs, and sought injunctive relief and treble damages. The District Court granted the defendants' motion to dismiss on 9 January 1996, but the US Court of Appeals for the Ninth Circuit subsequently reversed that decision. On 22 April 1998, the Judicial Panel on Multidistrict Litigation consolidated the case with four other pending cases, for pretrial purposes, in the Central District of California. These other cases include: *Chandu Dani d/b/a Compact Disc Warehouse and Record Revolution v. EMI Music Distribution et al. (C.D. Cal. 1997); T. Obie, inc. d/b/a Chestnut Hill Compact Disc v. EMI Music Distribution et al.* (S.D.N.Y. 1997); *Third Street Jazz and Rock Holding Corporation v. EMI Music Distribution et al.* (C.D. Cal. 1997); and *Nathan Muchnick, Inc. v. Sony Music Entertainment, Inc. et. al.* (S.D.N.Y. 1998). Earlier this year, the complaints in the *T. Obie and Third Street Jazz* cases were voluntarily dismissed by the plaintiffs. On 24 May 2000, the District Court denied plaintiffs' motion to certify the purported class. Plaintiffs' counsel have indicated their intention to appeal that decision and, meanwhile, to continue to prosecute the lawsuit on behalf of the four remaining retailer plaintiffs. The District Court has currently scheduled the trial to commence on 17 October 2000. Time Warner believes the case is without merit. If an appeal ultimately results in a class being certified, an adverse verdict thereafter could result in material loss to Warner Music Group. However, due to the lack of specificity of plaintiffs' claims and as a class has not been certified, a range of potential loss is not determinable at this time.

(d) In *Ottinger & Silvey et al. v. EMI Music Distribution, Inc., et al.*, plaintiffs commenced suit on 17 February 1998 in the Circuit Court of Cocke County, Tennessee. Plaintiffs purport to bring the suit on behalf of the persons who indirectly purchased CDs from 29 January 1993 to the present from six companies (including WEA Corp.) in Alabama, Arizona, California, the District of Columbia, Florida, Kansas, Maine, Michigan, Minnesota, Mississippi, New Mexico, North Carolina, North Dakota, South Dakota, Tennessee, West Virginia, and Wisconsin. Plaintiffs claim that defendants are engaged in a conspiracy to fix CD prices, in violation of the antitrust, unfair trade practices, and consumer protection statutes of each of these jurisdictions. On 11 May 1998, defendants filed a motion to dismiss the complaint for failure to state a cause of action. Plaintiffs have not yet responded to the motion. On 12 May 2000, *Marbry v. EMI Music Distribution Inc et al.*, which makes allegations very similar to those in the *Ottinger* case, was filed in the District of

Columbia Superior Court. Although Time Warner believes these cases are without any merit, an adverse verdict could result in a material loss to Warner Music Group. Due to the lack of specificity of plaintiff's claims and as no classes have yet been certified, a range of potential loss is not determinable at this time.

17. WORKING CAPITAL

17.1 *EMI*

The EMI Directors consider that, on the basis that the Combination has taken place and taking into account the bank and other facilities available to it, the EMI Group has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of this document.

17.2 *Warner EMI Music*

The EMI Directors and the Proposed WEM Directors and Officers consider that, on the basis that the Combination has taken place and taking into account the bank and other facilities available to it, Warner EMI Music has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of this document.

18. SIGNIFICANT CHANGE

18.1 *EMI*

There has been no significant change in the financial or trading position of the EMI Group since 31 March 2000, the date to which the last audited financial statements of the EMI Group were made up.

18.2 *Warner Music Group*

There has been no significant change in the financial or trading position of Warner Music Group since 31 December 1999, the date to which the Accountants' Report set out in Part 4 of this document was made up.

19. YEAR 2000 COMPLIANCE

19.1 *EMI*

The EMI Group and many of the customers and third parties it deals with use software and related technology businesses that could be affected by the Year 2000 Problem.

EMI started its compliance programme (designed to overcome the Year 2000 Problem) in 1996, and its progress is monitored by the EMI Board. The programme was designed to achieve compliance by:

- testing and obtaining assurances that existing information technology business critical systems and business critical processes ("Systems") operated through critical dates, including testing new products before purchase and implementation;
- reviewing customer credit risks in the light of their preparations;
- liaising with key third parties to determine the compliance of their systems;
- conducting interface testing to ensure the continued operation of third party interface systems through the critical dates; and
- preparing contingency plans to ensure business continuity including the development of an incident management structure and command centre, operated via a central website, to monitor and manage EMI through the critical dates.

As at 30 May 2000 (being the last practicable date prior to the publication of this document), EMI is not aware of any material Year 2000 Problems that have arisen in its Systems on or following 1 January 2000, and the EMI Directors have no reason to believe that EMI's Systems are not Year 2000 compliant. However, there can be no assurance that the Systems will continue to perform as expected or that measures taken or to be taken by EMI or by third parties will successfully minimise or eliminate the effects of the Year 2000 Problem. Any failure to do so could have a materially adverse impact on the financial condition and results of EMI and may not be embraced by EMI's contingency plans.

The total estimated cost of EMI's compliance programme is just over £22 million which, in accordance with Urgent Issues Task Force Bulletin 20, has been written off as incurred or capitalised where the costs are value enhancing to the Systems concerned. No significant additional costs are anticipated.

19.2 *Warner Music Group*

Warner Music Group and many of the customers and third parties it deals with, use software and related technology that could be affected by the Year 2000 Problem.

Warner Music Group started its compliance programme (designed to overcome the Year 2000 Problem) in 1996. It was and continues to be carried out by senior executives with assistance from Time Warner, and external professionals and it is overseen by Time Warner and its audit committee. The programme was designed to achieve compliance by:

- testing and obtaining assurances that existing information technology business critical systems and business critical processes ("Systems") operated through critical dates, including testing new products before purchase and implementation;
- reviewing customer credit risks in the light of their own preparations;
- liaising with key third parties to determine the compliance of their systems;
- conducting interface testing to ensure the continued operation of third party interface systems through the critical dates; and
- preparing contingency plans to ensure business continuity including the development of an incident management structure and command centre, operated via a central website, to monitor and manage Warner Music Group through the critical dates.

As at 30 May 2000 (being the last practicable date prior to the publication of this document), Time Warner is not aware of any current material Year 2000 Problems that have arisen in its Systems on or following 1 January 2000. Time Warner has no reason to believe that Warner Music Group's Systems are not Year 2000 compliant. However, there can be no assurance that the Systems will continue to perform as expected or that measures taken or to be taken by Time Warner or by third parties will successfully minimise or eliminate the effects of the Year 2000 Problem. Any failure to do so could have a materially adverse impact on the financial condition and results of Warner Music Group and may not be embraced by its contingency plans.

The total costs of Warner Music Group's Year 2000 compliance programme were £17 million. No significant additional costs are anticipated.

20. GENERAL

20.1 UBS Warburg has given and has not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which they appear. UBS Warburg is a financial services group of UBS AG, which is registered as a branch in England and Wales, Branch No. BR004507. UBS AG is a public company limited by shares, incorporated in Switzerland, whose registered offices are at Aeschenvorstadt 1, CH-4051 Basel, and Bahnhofstrasse 45, CH-8001 Zurich. UBS Warburg has its registered address at 1 Finsbury Avenue, London EC2M 2PP and is regulated in the UK by the Securities and Futures Authority.

20.2 Goldman Sachs International of Peterborough Court, 133 Fleet Street, London EC4A 2BB has given and not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which they appear. Goldman Sachs International is regulated in the UK by the Securities and Futures Authority.

20.3 The auditors of EMI are Ernst & Young, Chartered Accountants and Registered Auditors of Becket House, 1 Lambeth Palace Road, London SE1 7EU. Ernst & Young have given and have not withdrawn their written consent to the inclusion in this document of their report and letters, their name and references thereto in the form and context in which they appear and have authorised the contents of their reports and letters for the purposes of section 152(1)(e) of the Financial Services Act 1986.

20.4 The auditors of EMI's accounts for the last three years (ending 31 March 1998, 1999 and 2000) were Ernst & Young (see paragraph 20.3 above). In each such year, Ernst & Young made reports under section 235 of the Act in respect of each set of statutory accounts and each such report was unqualified and did not contain a statement under section 237(2) or (3) of the Act. Statutory consolidated accounts of EMI Group for the years ended 31 March, 1998 and 1999 have been, and those for the year ended 31 March 2000 will be, delivered to the registrar of companies in England and Wales.

20.5 The auditors of Warner Music Group are Ernst & Young L.L.P, New York, New York, US.

20.6 The registrars of EMI are Lloyds TSB Registrars of The Causeway, Worthing, West Sussex BN99 6DA.

20.7 The Convertible Deferred Shares are to be issued at a price of £5.75 per share, representing a premium of £5.55 above the nominal value of 20p per share. The Convertible Deferred Shares will be in registered form and will not be listed on any Stock Exchange.

20.8 The expected cost-saving synergies and associated one-off cash costs referred to in Parts 1 and 2 of this document could be affected by future exchange rate movements.

20.9 There have not been any interruptions to the business of the EMI Group or Warner Music Group, which may have, or have had in the past 12 months, a significant effect on its financial position.

20.10 There are no arrangements under which future EMI dividends are to be waived or agreed to be waived other than by the EMI Group General Employee Benefit Trust.

20.11 The EMI Ordinary Shares are in registered form and are capable of being held in uncertificated form.

20.12 No EMI Ordinary Shares to which the application for the re-admission to the Official List relates are being offered to the public.

21. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Freshfields, 65 Fleet Street, London EC4Y 1HS until the Closing Date:

(a) this document;

(b) the existing memorandum and articles of association of EMI and the new articles of association of EMI proposed to be adopted at the Extraordinary General Meeting;

(c) the audited consolidated accounts of EMI Group for the three financial years ended 31 March 1998, 31 March 1999 and 31 March 2000 respectively;

(d) the service contracts of the executive EMI Directors and the letters of appointment of the non-executive EMI Directors referred to in paragraph 7 above;

(e) the Combination Agreement, other material contracts referred to in paragraph 15 above, the Bank Credit Facilities and the Time Warner Facility referred to in paragraph 14 above;

(f) a draft of the Agreement Between Parents, a draft of the WEM US Partnership Agreement and a draft of the Subscription and Option Agreement (in each case, subject to amendments which may be agreed by Time Warner and EMI);

(g) the consents referred to in paragraph 20 above;

(h) the letter from Ernst & Young regarding the pro forma financial information for the EMI Group and Warner EMI Music set out in Part 7 of this document;

(i) the accountants report by Ernst & Young on Warner Music Group set out in Part 4 of this document; and

(j) the rules of the EMI Employee Share Schemes.

Dated: 2 June 2000

Definitions

The following definitions apply throughout this document, unless the context requires otherwise.

an "Affiliate"	of any person means any other person that, directly or indirectly, Controls, is under common Control with or is controlled by that person (provided that (a) Time Warner and its Affiliates and EMI and its Affiliates shall not be deemed to be Affiliates of any WEM Entity, (b) any WEM Entity and its Affiliates will not be deemed to be Affiliates of Time Warner or EMI. For these purposes, "Control" means, as to any person, the power to direct or cause the direction of the management and policies of such person, whether through the ownership or voting securities, by contract or otherwise.
"Agreement Between Parents"	the proposed agreement to be entered into at or before Closing by EMI and Time Warner in respect of their respective indirect interests in Warner EMI Music
"A&R"	artist and repertoire
the "Act"	the Companies Act 1985 (as amended)
"AOL"	America Online, Inc. and its subsidiary undertakings
"CD"	compact disc
"CDnow"	CDnow, Inc.
"CD-ROM"	compact discs for use in read-only memory drives
"Closing"	completion of the Combination
"Closing Date"	the date on which Closing occurs
"Columbia House"	The Columbia House Company partnerships
"Combination"	the proposed combination of EMI Music and Warner Music Group to form Warner EMI Music pursuant to the Combination Agreement
"Combination Agreement"	the restated combination agreement dated as of 23 January 2000 between EMI and Time Warner
the "Committee"	the Remuneration Committee of the EMI Board
"Consolidation"	the proposed share consolidation details of which are set out in the notice of Extraordinary General Meeting at the end of this document
"Convertible Deferred Shares"	the convertible deferred shares of 20p each in the capital of EMI proposed to be issued to a member of the Time Warner Group at Closing pursuant to the Combination Agreement
"d/b/a"	doing business as
"DVD"	digital versatile disc
"EBITA"	earnings before interest, tax and amortisation
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"EMI"	EMI Group plc

"EMI Board"	the board of directors of EMI
"EMI Credit Facility"	the proposed revolving credit facility from Warner EMI Music to EMI as described in paragraph 14.1 of Part 10 of this document
"EMI Directors"	the directors of EMI
"EMI Group"	EMI and its subsidiary undertakings (save in Part 8 of this document where it shall bear the meaning set out in paragraph 2.12 of Section A thereof)
"EMI Music"	the recorded music and music publishing businesses of EMI
"EMI Ordinary Shares"	ordinary shares of 14p each in the capital of EMI, or where the context requires any shares resulting from any subdivision or consolidation thereof
"Employee Share Schemes"	the 1984 Thorn EMI Executive Share Option Scheme, the 1995 EMI Group Executive Share Option Scheme, the 1996 EMI Group Savings-Related Share Option Scheme, the EMI Group Senior Executive Incentive Plan and the EMI Music Long Term Incentive Plan
"EU"	the European Union
"Extraordinary General Meeting"	the extraordinary general meeting of EMI to be held on 26 June 2000 (and any adjournment thereof), notice of which is contained at the end of this document
"HMV Media"	HMV Media Group plc
"IFPI"	the International Federation of the Phonographic Industry
"LIBOR"	the London inter-bank offered rate
"Listing Rules"	the Listing Rules of the UK Listing Authority
"London Stock Exchange"	London Stock Exchange PLC
"LSE Admission Standards"	the rules issued by the London Stock Exchange in relation to the admission to trading of, and continuing requirements for, securities admitted to the Official List
"Music Business"	has the meaning given to it in the Combination Agreement and includes carrying on business (including through new media) relating to music recordings, music compositions, music merchandise, audio and audio visual formats and technologies, recording studios, concert promotion, artist management, music programming, audio and audio visual retail and wholesale outlets, printing and any other activity understood as being part of the music business (as such term is understood in the regional and worldwide record industry)
"Official List"	the list maintained by the UK Listing Authority pursuant to Part IV of The Financial Services Act 1986
"Proposed WEM Director"	the proposed directors of WEM UK and the proposed partner representatives of WEM US, whose names are set out in Part 10 of this document.
"Proposed WEM Directors and Officers"	the Proposed WEM Directors and the proposed partner representatives of WEM US and the proposed Chief Executive Officer and Chief Operating

	Officer of WEM UK and WEM US, whose names are set out in Part 10 of this document
"SDMI"	the Secure Digital Music Initiative
"Special Cash Payment"	the proposed special dividend to holders of EMI Ordinary Shares following the Closing Date pursuant to the Combination Agreement
"Subscription and Option Agreement"	the draft subscription and option agreement to be entered into on Closing by EMI and Time Warner
"Time Warner"	Time Warner Inc.
"Time Warner Group"	Time Warner and its subsidiary undertakings (save in Part 8 of this document where it shall bear the meaning set out in paragraph 2.12 of Part A thereof)
"Time Warner Option"	the option to subscribe for EMI Ordinary Shares granted by EMI to Time Warner under the Subscription and Option Agreement
"Toshiba-EMI"	Toshiba-EMI Limited, a company organised under the laws of Japan
"UBS Warburg"	UBS Warburg, a financial services group of UBS AG
"UK"	the United Kingdom of Great Britain and Northern Ireland
"UK GAAP"	generally accepted accounting principles of the UK
"UK Listing Authority"	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part IV of the Financial Services Act 1986 and in the exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part IV of the Financial Services Act 1986, including where the context so permits, any committee, employee, officer or servant to whom any function of the UK Listing Authority may for the time being be delegated
"US"	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
"US$" or "$"	US dollars
"US GAAP"	generally accepted accounting principles of the US
"VAT"	value added tax
"Warner EMI Music"	WEM UK, WEM US, WEM Finance and their respective subsidiaries and businesses
"Warner EMI Music Boards"	the board of directors of WEM UK and the board of partner representatives of WEM US
"Warner Music Business"	the Music Business of Warner Music Group which is proposed to be contributed to Warner EMI Music
"Warner Music Group"	the division of Time Warner known as Warner Music Group which, with certain exceptions, is proposed to be contributed to Warner EMI Music
"WEM Entities"	WEM UK, WEM US and WEM Finance
"WEM Finance"	Warner EMI Music Finance LP, a limited partnership formed in the US

"WEM UK"	the company incorporated or to be incorporated in the UK and which will carry on Warner EMI Music's business principally in the UK and elsewhere (outside the US, Canada and Japan) pursuant to the Combination Agreement and will be owned equally by subsidiaries of EMI and Time Warner
"WEM UK Shareholders' Agreement"	the proposed shareholders' agreement to be entered into at or before Closing by subsidiaries of EMI and Time Warner, respectively, in respect of WEM UK (which is intended to reflect the provisions of the WEM US Partnership Agreement with amendments principally consequent upon the corporate status of WEM UK)
"WEM US"	the general partnership to be formed in the US and which will carry on the business of Warner EMI Music principally in the US, Canada and Japan pursuant to the Combination Agreement and will be owned equally by subsidiaries of EMI and Time Warner
"WEM US Partnership Agreement"	the proposed general partnership agreement to be entered into at or before Closing by subsidiaries of EMI and Time Warner, respectively, in respect of WEM US
"WIPO"	World Intellectual Property Organisation
"Year 2000 Problem"	is a term which relates to the inability of information systems, primarily computer software systems, properly to recognise and process date sensitive information prior to, during and after the year 2000 which sometimes results in a failure to operate or improper operation of such information systems

EMI GROUP plc
(registered in England and Wales No. 229231)
NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of EMI Group plc (the "Company") will be held at The Charter Suite, The Meridien Waldorf, Aldwych, London WC2B 4DD on 26 June 2000 at 11.00am to consider and, if thought fit, to pass the following resolutions, of which resolution 1 shall be proposed as an ordinary resolution and resolution 2 shall be proposed as a special resolution. The explanatory notes do not form part of the resolutions and should be read in conjunction with the circular and listing particulars of the Company dated 2 June 2000 of which this notice forms part.

ORDINARY RESOLUTION

1. THAT:

(a) the combination of the music business of the Company with the music business of Time Warner Inc. (the "Combination") on the basis described in the listing particulars and circular to shareholders dated 2 June 2000 (of which this notice forms a part) (the "Circular") and on the terms and subject to the conditions of the restated combination agreement between the Company and Time Warner Inc. dated as of 23 January 2000 (the "Combination Agreement", a copy of which was produced to the meeting and initialled by the Chairman for the purposes of identification), the proposed Agreement Between Parents and the proposed WEM US Partnership Agreement (as defined and summarised in the Circular, drafts of which were produced to the meeting and initialled by the Chairman for the purposes of identification) and the proposed WEM UK Shareholders' Agreement (as defined and summarised in the Circular), with such non-material modifications, amendments, waivers, variations or extensions to such Agreements as may be approved by the directors of the Company, or a committee of the board of directors of the Company, be and is hereby approved, and that the directors of the Company be and are hereby authorised to take all necessary steps to implement the same;

Paragraph (a) of resolution 1 asks you to approve the Combination on the basis described in the Circular.

(b) subject to and simultaneous with the closing of the Combination ("Closing"), the authorised share capital of the Company shall be and is hereby increased from £656,106,182.835 to £683,306,182.835 by the creation of:

   (i) 80,000,000 convertible deferred shares of 20p each in the capital of the Company ("Convertible Deferred Shares") having attached to them the rights and restrictions set out in the new articles of association referred to in paragraph (d) of resolution 2 below, a summary of such rights and restrictions being set out in Section B of Part 9 of the Circular; and

   (ii) 80,000,000 ordinary shares of 14p each in the capital of the Company;

(c) subject to and simultaneous with Closing, and in addition to any existing authorities pursuant to Section 80 of the Companies Act 1985, the authority and power to allot relevant securities conferred on the directors by article 14 of the Company's articles of association be and is hereby granted for the purpose of the allotment of Convertible Deferred Shares, to Time Warner Inc. or a subsidiary thereof, under the terms of a subscription and option agreement to be entered into between the Company and Time Warner Inc. (as described in Section B of Part 9 of the Circular) pursuant to the Combination Agreement (the "Subscription and Option Agreement", a draft of which was presented to the meeting and initialled by the Chairman for the purposes of identification), for the period expiring (unless previously renewed, varied or revoked by the Company in general meeting) one year after the date on which this resolution is passed and for such period the Section 80 amount shall be increased by £16,000,000; and

(d) subject to and simultaneous with Closing, and in addition to any existing authorities pursuant to Section 80 of the Companies Act 1985, the authority and power to allot relevant securities conferred on the directors by article 14 of the Company's articles of association be and is hereby granted for the purpose of the grant, to Time Warner Inc. or a subsidiary thereof, of a contingent option to subscribe for up to 80,000,000 ordinary shares of 14p each pursuant to the Subscription and Option Agreement for the period expiring (unless previously renewed, varied or revoked by the Company in general meeting) one year after the date on which this resolution is passed and for such period the Section 80 amount shall be increased by £11,200,000.

Paragraph (b) of resolution 1 conditionally creates the Convertible Deferred Shares to be allotted to Time Warner Inc. or a subsidiary thereof pursuant to the terms of the Subscription and Option Agreement and the EMI Ordinary Shares which may be allotted pursuant to the option granted to Time Warner under the

Subscription and Option Agreement (the "Time Warner Option"). Paragraph (c) of resolution 1 conditionally authorises the directors to allot Convertible Deferred Shares pursuant to the terms of the Subscription and Option Agreement, and paragraph (d) conditionally authorises the directors to grant the Time Warner Option.

SPECIAL RESOLUTION

2. THAT:

(a) subject to and simultaneous with Closing, in addition to any existing disapplication of Section 89(1) of the Companies Act 1985, pursuant to article 14 of the Company's articles of association, the directors be and are hereby authorised to allot up to 80,000,000 Convertible Deferred Shares for cash pursuant to the Subscription and Option Agreement as if Section 89(1) of the Companies Act 1985 did not apply to such allotment, such authorisation to expire (unless previously renewed, varied or revoked by the Company in general meeting) one year after the date on which this resolution is passed and for such period the Section 89 amount shall be increased by £16,000,000;

(b) subject to and simultaneous with Closing, in addition to any existing disapplication of Section 89(1) of the Companies Act 1985, pursuant to article 14 of the Company's articles of association, the directors be and are hereby authorised to grant, to Time Warner Inc. or a subsidiary thereof, a contingent option to subscribe for up to 80,000,000 ordinary shares of 14p each pursuant to the Subscription and Option Agreement as if Section 89(1) of the Companies Act 1985 did not apply to such allotment, such authorisation to expire (unless previously renewed, varied or revoked by the Company in general meeting) one year after the date on which this resolution is passed and for such period the Section 89 amount shall be increased by £11,200,000;

Paragraph (a) of resolution 2 conditionally permits the directors to allot Convertible Deferred Shares to Time Warner Inc. or a subsidiary thereof on a non-pre-emptive basis pursuant to the terms of the Subscription and Option Agreement. Paragraph (b) of resolution 2 conditionally permits the directors to grant the Time Warner Option on a non-pre-emptive basis pursuant to the terms of the Subscription and Option Agreement.

(c) subject to Closing and to the admission of the New Ordinary Shares (as defined below) to the Official List of the UK Listing Authority:

(i) a dividend (the "Special Cash Payment") of £1.00 per ordinary share of 14p each in the capital of the Company ("Existing Ordinary Share") be and is hereby declared in favour of holders of Existing Ordinary Shares on the register of members of the Company at the close of business on the date of Closing (the "Record Date") to be paid on a date to be determined by the directors;

(ii) the issued Existing Ordinary Shares be and are hereby consolidated into such number of ordinary shares ("New Ordinary Shares") as results from the application of the following formula (the nominal value of each New Ordinary Share being equivalent to the total issued share capital of the Company divided by the number of New Ordinary Shares resulting from the application of such formula):

$$E \times \frac{T - 100}{T}$$

where E is the number of Existing Ordinary Shares in issue on the date of such consolidation and T is the closing middle market price (in pence) of an Existing Ordinary Share as derived from the London Stock Exchange's Daily Official List on the Record Date on terms that:

(A) the application of this paragraph (c)(ii) shall be subject to any such adjustment as the directors may deem necessary or expedient so as to produce a practical nominal value per New Ordinary Share and/or to deal with any other technical or practical problems;

(B) fractional entitlements to Existing Ordinary Shares which cannot be consolidated pursuant to the above formula (as the same may be adjusted in accordance with sub-paragraph 2(c)(ii)(A)) belonging to holders of Existing Ordinary Shares shall be aggregated and immediately thereafter consolidated into New Ordinary Shares;

(C) the directors be and are hereby authorised and directed to sell the New Ordinary Shares resulting from the aggregation and consolidation (described in sub-paragraph 2(c)(ii)(B) above) on behalf of holders of such fractional entitlements;

(D) the net proceeds of such sale shall be paid in due proportions to the holders of such fractional entitlements;

(E) any fractions of Existing Ordinary Shares which cannot be consolidated pursuant to sub-paragraph 2(c)(ii)(B) above be and are hereby sub-divided and converted into deferred shares of 0.001p each in the capital of the Company having the rights and being subject to the restrictions set out in the new articles of association of the Company to be adopted pursuant to paragraph (d) of this resolution; and

(iii) all of the authorised but unissued Existing Ordinary Shares (including without limitation, those created pursuant to resolution 1(b) above) be and are hereby consolidated into such number of New Ordinary Shares as would result from the application of the formula set out at sub-paragraph 2(c)(ii) above (as the same may be adjusted in accordance with sub-paragraph 2(c)(ii)(A)), and any authorised but unissued share capital which cannot be so consolidated be and is hereby cancelled and the authorised but unissued share capital of the Company be and is hereby reduced accordingly.

Paragraph (c) of resolution 2 conditionally declares a special dividend of £1.00 per EMI Ordinary Share (the "Special Cash Payment") and provides for the consolidation of EMI Ordinary Shares (the "Consolidation") in each case as described in the Circular.

(d) subject to and simultaneous with Closing, the new articles of association of the Company set out in the printed document produced to the meeting and initialled for the purposes of identification by the Chairman be and are hereby adopted in substitution for and to the exclusion of the existing articles of association;

Paragraph (d) of resolution 2 conditionally adopts new articles of association of the Company incorporating the rights and restrictions attaching to the Convertible Deferred Shares, which are summarised in Section B of Part 9 of the Circular, and to the deferred shares expected to result from the Consolidation, which are summarised at paragraph 4.8 of Part 10 of the Circular.

(e) conditional upon the directors determining to effect any conversion of Convertible Deferred Shares by means of a consolidation or sub-division:

(i) in accordance with sub-paragraph 4(i) of article 60 of the new articles of association referred to in paragraph (d) of this resolution 2, all relevant shares (as defined in the new articles of association referred to in paragraph (d) of resolution 2) held by any holder of such Convertible Deferred Shares shall be consolidated into one share and such consolidated share shall be sub-divided into ordinary shares as described in such sub-paragraph; and

(ii) in accordance with sub-paragraph 4(j) of article 60 of the new articles of association referred to in paragraph (d) of this resolution 2, all relevant shares (as defined in the new articles of association referred to in paragraph (d) of resolution 2) held by any holder of such Convertible Deferred Shares shall be consolidated into one share and such consolidated share shall be sub-divided into ordinary shares as described in such sub-paragraph.

Paragraph (e) of resolution 2 will allow the directors to convert the Convertible Deferred Shares into ordinary shares by means of consolidation and sub-division, in accordance with the provisions of the new articles of association of the Company to be adopted pursuant to paragraph (d) of resolution 2.

Registered Office:
4 Tenterden Street
London W1A 2AY

By Order of the Board
Charles Ashcroft
Company Secretary
2 June 2000

Notes:

1. *A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company.*
2. *A pre-paid form of proxy is enclosed which members are invited to complete and return. Lodging a form of proxy will not prevent the member from attending the meeting and voting in person should he or she decide to do so.*
3. *To ensure that it is effective, the instrument appointing a proxy, together with any power of attorney or other authority under which it is signed, or a duly certified copy thereof, should be deposited at the offices of the Company's Registrars, Lloyds TSB Registrars, at their address in England, The Causeway, Worthing, West Sussex BN99 6DA before 11.00am on 24 June 2000.*

4. *The Company, pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those members registered in the register of members of the Company as at 6.00 pm on 24 June 2000 or, in the event that this meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their names at that time. Changes to entries in the register of members after 6.00 pm on 24 June 2000 or, in the event that this meeting is adjourned, in the register of members after 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.*

Information for Shareholders Attending the Extraordinary General Meeting

Introduction

After his opening remarks, the Chairman will explain in detail the procedures for the conduct of the meeting, particularly for asking questions and voting on the resolutions. The resolutions which are set out in the Notice of Extraordinary General Meeting will then be put to the meeting.

How to ask questions

At the meeting, shareholders will be given the opportunity to ask questions. You may be asked to wait until called upon to speak. Please remember to state your name before asking your question.

How to vote on a show of hands

You should raise above your head your voting card (which you will receive when you register) indicating that you are voting either for or against the resolution as it is put to the vote by the Chairman. Only shareholders, or authorised representatives of corporate shareholders, may vote on a show of hands. If you are attending as a proxy for a shareholder, you will receive an appropriate identification card at registration.

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EXHIBIT CO 0928

EMI is the world's largest independent music company, operating directly in 50 countries and with licensees in a further 20 and employing over 6,300 people. Revenues in the last financial year were nearly £2 billion, generating operating profit of over £250 million.

The company comprises two divisions – EMI Music, one of the top global recorded music companies, and EMI Music Publishing, the world's largest and most successful music publisher.

As an owner of digital music content, EMI is extremely well positioned to capitalise on the rapid growth of digital music. EMI's strategy is to deliver music to consumers in any form, at any time and in any place. During the 2005/06 financial year, digital revenues grew 135% to £112 million.

EMI's executive management team is headed by EMI Group chairman Eric Nicoli . Martin Stewart is EMI Group's chief financial officer. EMI Music is run by chairman and CEO Alain Levy and vice chairman David Munns, whilst EMI Music Publishing is the responsibility of chairman and co-CEO Martin Bandier and co-CEO Roger Faxon.

EMI Music represents more than 1,300 recording artists worldwide, spanning all musical tastes and genres, and owns one of the finest catalogues of recorded music ever assembled with over three million individual tracks. The company's roster includes music legends such as The Beatles, the Rolling Stones, Pink Floyd and Mstislav Rostropovich; global superstars like Norah Jones, Robbie Williams, Gorillaz, Coldplay and Keith Urban; breaking acts enjoying tremendous success on their home ground including Dem Franchize Boyz, Trace Adkins and Dierks Bentley in the US, Radja in Indonesia, Raphael and Diam's in France, RBD in Latin America and Magic Numbers, KT Tunstall and Corinne Bailey Rae in the UK; plus some of the world's finest classical artists including Nigel Kennedy, Simon Rattle, Itzhak Perlman and Angela Gheorghiu.

EMI Music's record labels include Angel, Astralwerks, Blue Note, Capitol, Capitol Nashville, EMI, EMI Classics, EMI CMG, EMI Televisa Music, Mute, Parlophone and Virgin.

With around 5,600 employees worldwide, EMI Music's turnover last year was over £1.6 billion, earning profits of £145 million.

EMI Music Publishing owns the largest catalogue of songs in the world, containing over a million contemporary and classic titles. Its roster of songwriters is unparalleled. The company has won and continues to win more industry accolades and publisher of the year awards than any other music publisher. Its catalogue of best-selling songs includes *Bohemian Rhapsody, I Heard It Through The Grapevine, New York, New York, Over the Rainbow, the James Bond theme, Singin' In The Rain, Santa Claus is Comin' to Town, Wild Thing, We Will Rock You, Angels, Baby Love, Crazy in Love* and *Daydream Believer* and is home to many of the world's best songwriters including Guy Chambers, Cathy Dennis, Eminem, Alicia Keys, Kanye West, Usher, Arctic Monkeys and James Blunt.

With offices all around the world, EMI Music Publishing has about 640 staff and last financial year generated just under £420 million in turnover and profits of about £105 million.

For an illustration of how record labels and publishing companies fit into the structure of the music business please click here.

Last updated August 2006

EXHIBIT CO 0929

EMI

Jump to navigation

EMI Group plc results for the six months ended 30 September 2006

15 November 2006

In the first half, EMI Group delivered rapid digital growth, continued creative success across both divisions and made good progress on its restructuring initiatives.

Strong second-half release schedules for both divisions, together with continued growth in digital revenues and on-going cost discipline, give the Board confidence that the Group is on track to deliver results in line with its expectations for the full year, after taking into account the impact of the fraud in Brazil.

- EMI Group reports revenue of £867.9m compared to £924.6m in the prior year, a decline of 4.1% at constant currency.

- Group digital revenues grew by 68.4% at constant currency, totalling £73.7m in the first half. Digital revenues represented 8.5% of total Group revenues, significantly up from 5.4% in the financial year ended 31 March 2006.

- EMI Music revenues declined by 5.2% at constant currency, largely reflecting the phasing of the planned release schedule which, as previously indicated, has a greater weighting to the second half of the financial year. Digital revenues grew by 78.2% at constant currency, representing 9.4% of total divisional revenues in the half.

- EMI Music Publishing delivered revenues in line with last year at constant currency and an increase in reported profit from operations of 5.8%.

- A&R strength across both divisions:

o EMI Music continues to break new talent with success in North America in the first half including Letoya, Cherish, 30 Seconds to Mars and The Red Jumpsuit Apparatus;

o Second-half releases from EMI Music include albums from Robbie Williams, Norah Jones, Keith Urban, Joss Stone, Dierks Bentley, RBD, Relient K, All Saints, Vasco Rossi, Simon Webbe, Depeche Mode, The Magic Numbers, The Thrills and Moby. The Beatles also have an exciting new release, where the legendary producer Sir George Martin, and his son Giles, have been working with the entire archive of Beatles recordings to create the *LOVE* album;

o EMI Music Publishing's first-half chart share reflects the high quality of its songwriting talent and resulted in mechanical and performance revenues outperforming the recorded music market;

o Key second-half releases for EMI Music Publishing include albums from Natasha Bedingfield, Kelly Clarkson, Daddy Yankee, Diddy, Snoop Dogg, Good Charlotte, Il Divo, Jay-Z, My Chemical Romance, Scissor Sisters, Sting, Kanye West and Amy Winehouse.

- Group profit from operations reduced to £62.7m from £86.7m in the prior year. This largely reflects the decline in first-half revenues at EMI Music, and the one-off impact of £9.0m from the previously reported accounting fraud at EMI Music's Brazilian operations.

- Underlying profit before tax of £18.6m, after taking into account the one-off profit impact of the fraud in Brazil, compared to £41.0m in the prior year.

- Underlying diluted EPS decreased to 1.4p from 3.8p in the prior year.

- Interim dividend maintained at 2.0p per share.

Enquiries

EMI Group plc

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A live webcast of EMI's presentation to investors and analysts will take place at 9.00 am (UK time) today, 15 November 2006, and can be accessed via the Company's web site, www.emigroup.com. An archive will be available for viewing shortly thereafter.

This press release contains forward-looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions because they relate to events and/or depend on circumstances that may or may not occur in the future and could cause actual results and outcomes to differ materially from those expressed in or implied by the forward-looking statements. Whilst it is believed that the expectations reflected in these statements are reasonable, no assurances can be given that the forward-looking statements in this press release will be realised.

Chairman's statement

The results for the first half of the financial year largely reflect the phasing of EMI Music's planned release schedule which, as previously indicated, has a greater weighting to the second half of the financial year than in prior years. EMI Music Publishing once again delivered a strong performance.

Group revenue for the six months to 30 September 2006, declined by 4.1% at constant currency and by 6.1% on a reported basis. The lower first-half revenues at EMI Music, and the £9.0m one-off cost of the fraud discovered in October at our recorded music business in Brazil, are the key reasons for the reported first-half decline in Group profit from operations from £86.7m to £62.7m. The Board has declared an unchanged interim dividend of 2.0p per share.

Digital revenue continues to grow rapidly, substantially increasing its share of total Group revenue. At EMI Music, digital revenue increased to £62.4m representing 9.4% of divisional revenue compared to 5.6% in the financial year to 31 March 2006. We expect continued strong growth in this revenue stream in the second half driven by EMI Music's release schedule, the expected launch of new portable music players and the seasonal pick up in digital revenue that has been seen in the past two years. For EMI Music Publishing, digital revenue grew to £11.3m representing 5.6% of divisional revenue. The full tracking and auditing of the increasing number of uses for our songs remains a key priority and EMI Music Publishing continues to drive the industry's agenda on issues such as rate setting and collection. While we are making progress, there is some way to go in fully capturing all music publishing digital revenues.

In EMI Music, our A&R strategy is proving to be successful. We continue to break new acts, who are not only producing the hits of today, but are strengthening our roster for the long term. In particular, during the half, we saw a number of artists break through in the US including Letoya, Cherish, 30 Seconds To Mars and The Red Jumpsuit Apparatus. In the UK, we saw continued success from KT Tunstall, Corinne Bailey Rae and The Kooks, whilst Lily Allen burst onto the music scene in July heading to the top of the charts.

At EMI Music Publishing, the outstanding quality of our songwriting talent has once again been reflected in our chart share over the period as well as in our mechanical and performance revenues, which have outperformed the recorded music industry.

In October 2006, we announced Marty Bandier's resignation as Chairman and joint CEO of EMI Music Publishing. I would like to thank Marty for the immense contribution he has made to the development of EMI Music Publishing over the past 17 years. Roger Faxon, who is currently President and joint CEO of EMI Music Publishing, will succeed Marty as sole CEO from April 2007 when Marty will leave the business. I am confident that Roger and his highly talented management team will drive this exceptional business to new heights in the years ahead.

We have made strong progress on the Group-wide cost saving initiatives announced in April 2006. We are on track to achieve £10.0m of savings over the full year and a total of £30.0m by the end of the 2007/08 financial year.

Industry environment

A fall in the industry's physical music revenue in the six months to 30 September 2006, resulted in an overall decline in the value of the recorded music market over the period. Digital revenues, however, continued to show strong growth and the evolution of new digital services, business models, devices and technologies continued at a rapid pace. Consumer take up of digital music devices is growing at an impressive rate and, with market penetration still at less than 30%, there is significant untapped potential. Product innovation and the entry of new players underpin our confidence that we will continue to see substantial growth in digital revenue. Microsoft announced the launch of its portable digital music player, the Zune, which is now being rolled out in the US, with tracks and videos from EMI Music artists pre-loaded onto the device. Over the next six months, we will continue to see the launch of a new generation of mobile phones with enhanced music capabilities from, for example, Nokia and Sony Ericsson, as handset manufacturers continue to drive uptake through improved media functionality.

The fight against piracy remains a key priority. The industry has secured a number of important results over the period such as an industry-wide settlement with Kazaa, a ruling against StreamCast and the suspension of Mastercard and Visa's payment services to Russian site AllofMP3.com. It is reassuring that a number of courts and governments around the world have held that it is not acceptable to authorise the widespread infringement of others' intellectual property. The industry's anti-piracy efforts also appear to be having an impact on consumer behaviour with, for example, peer-to-peer usage remaining relatively stable in the US despite a significant increase in the number of households with broadband access. With the on-going evolution in the music market we expect the battle against piracy to remain a continuing challenge.

We believe that the fundamentals remain in place for the music market to return to growth driven by digital development. In the short term, the industry release schedule will help to drive the market's trajectory and we are encouraged by the slate of industry releases due out for this Christmas season.

Group outlook
We have an outstanding collection of releases due in the second half of the financial year from both divisions.

From EMI Music, we have albums from Robbie Williams, Norah Jones, Keith Urban, Joss Stone, Dierks Bentley, RBD, Relient K, All Saints, Vasco Rossi, Simon Webbe, Depeche Mode, The Magic Numbers, The Thrills and Moby. We also have an exciting new release from The Beatles, where the legendary producer Sir George Martin, and his son Giles, have been working with the entire archive of Beatles recordings to create the *LOVE* album.

Key second-half releases for EMI Music Publishing include albums from Natasha Bedingfield, Kelly Clarkson, Daddy Yankee, Diddy, Snoop Dogg, Good Charlotte, Il Divo, Jay-Z, Norah Jones, My Chemical Romance, Scissor Sisters, Sting, Kanye West and Amy Winehouse.

The strength of this line up, together with continued strong growth in digital revenues and on-going cost discipline, give the Board confidence that the Group is on track to deliver results in line with its expectations for the full year, after taking into account the impact of the fraud in Brazil.

Business review

Part I
EMI Music
EMI Music reported first-half revenues of £667.1m, a decline of 5.2% at constant currency. This year-on-year decline largely reflects the phasing of the planned release schedule which is more heavily weighted to the second half than in prior years.

Digital revenues continued to grow rapidly and during the half represented 9.4% of total divisional revenue compared to 5.6% for the financial year to 31 March 2006. In particular, we have seen strong growth in revenue from mobile music products in North America with, for example, Bubba Sparxxx's single Ms. New Booty selling more than 1m full-track single downloads to mobile during the period. Revenue from the sale of music videos has also grown strongly, albeit off a small base, with the particularly strong growth being seen in Japan where revenue was generated from mobile services including KDDI and DoCoMo. We have also been working closely with Napster who recently launched the first paid subscription service in Japan.

Reported profit from operations, after adjusting for the accounting fraud in Brazil, was £11.5m in the first half. The impact on underlying profit from operations of lower revenue and the changed mix of releases as compared the prior year was partly mitigated by the delivery of cost savings from the initiatives announced in April 2006 and higher operating margin achieved from digital music revenue.

During the past six months we have made good progress with our cost saving and other initiatives. In particular, the restructuring of our Japanese operations is well underway and, since April 2006, we have seen the introduction of a new organisational structure with a focus on the reallocation of resources into the key areas of A&R and marketing. Across Continental Europe, we have successfully restructured a number of areas including the Mute label and operations in Scandinavia, Austria and Portugal. In particular, our shared finance service programme is well advanced and is expected to be completed shortly.

Our North American business delivered an encouraging performance in the first half driven by a healthy mix of releases. This included albums from established artists such as Janet Jackson, Bob Seger and Trace Adkins, new developing artists such as Letoya, 30 Seconds to Mars, Cherish and The Red Jumpsuit Apparatus as well as developing international artists, such as Corinne Bailey Rae and KT Tunstall who have successfully broken into the US market. The North American release schedule for the second half is strong, including new albums from Dierks Bentley, Keith Urban, Norah Jones, Relient K and Joss Stone. Latin sensation, RBD, who are signed to our EMI Televisa joint-venture, continue to go from strength to strength. Their much anticipated new album *Celestial* will be released prior to Christmas and will be followed by an English language album, both on international release.

As expected, the UK had a light first-half release schedule with no new releases during the period from any of our major-selling established artists. Importantly, we continued to see good success in developing and breaking new artists in the UK. In the first half, Corinne Bailey Rae's self-titled debut album continued to sell well with total unit sales, including digital, exceeding 2.5m. The Kooks' debut album, *Inside In/Inside Out*, which has now sold more than 1.5m units, has seen sustained success being in the top 10 of the UK charts for an impressive 25 weeks. Lily Allen has firmly positioned herself as one of the UK's leading female artists, with her debut album Alright Still selling more than 750k units to date. She has also seen success in Continental Europe and is now working on entering the US market. From the UK in the second half, the latest album from Robbie Williams, *Rudebox*, the *LOVE* album from The Beatles, and releases from All Saints, Depeche Mode, The Magic Numbers, Moby, The Thrills and Simon Webbe, are expected to sell well.

In Continental Europe, we continued to maximise the opportunity from the sale of local repertoire in the first half. Top-selling local EMI Music artists included Renaud, Diam's and Raphael from France; Pur, Lafee and Helmut Lotti from Germany; and Tiziano Ferro from Italy. Second-half releases include albums from local artists Vasco Rossi, Wir Sind Helden and Arrebato. International releases from Moby, Depeche Mode, Norah Jones and Joss Stone are also expected to sell well in the region.

In Japan, local superstar artist Hikaru Utada released her new album, *Ultra Blue*, in June. Through a focus on mobile music marketing initiatives, almost 1m full-track singles from the album were downloaded to mobile in the half. Other top-selling albums in Japan during the period included *G4* from Glay, *A Girl in Summer* from Yumi Matsutoya and *20 Y.O.* from Janet Jackson.

Part II
EMI Music Publishing
EMI Music Publishing has again outperformed the recorded music industry over the six months to 30 September 2006, delivering revenue in line with the prior year at constant currency. The quality of the division's roster of songwriters was reflected in strong on-going chart share and demonstrated the continued success of our A&R strategy. Notable hits over the period included songs by Scissor Sisters, Fergie, James Blunt, Beyonce, Kasabian, Christina Aguilera, Pink, Rihanna, The Feeling and The Zutons.

The division has built an exceptional catalogue of song copyrights featuring all-time classics as well as today's hottest hits and is focused on maximising the value of this asset through existing and new uses. In pursuing this objective, good progress has been made with our planned systems' investment and we have recently implemented a new programme for tracking the use of our digital rights called 'Digits'. We believe we are taking a big step forward to enable faster and more efficient licensing of our content through our initiative to establish a pan-European one-stop shop for online rights, which is due to go live in January 2007.

Over the period, mechanical revenues, primarily generated from the sale of CDs, contributed 43.6% of divisional revenue and, despite declining by

1.4% at constant currency, outperformed the recorded music market. The division's creative success limited the impact of challenging industry conditions and, by region, the US was a particular area of robust performance.

Performance revenues saw an especially strong increase, growing by 8.5% at constant currency to represent just over 30.8% of divisional revenue. Performance income is generated when a song is broadcast on the radio or television, performed live on stage or played in a public venue such as a bar. The strength of this revenue stream in the period primarily reflected EMI Music Publishing's share of hit songs, which resulted in particularly strong radio and television airplay.

Synchronisation revenues accounted for 17.4% of divisional revenue and grew by 2.0% over the period. Such revenues are derived from the use of songs in audiovisual works such as television programmes, advertisements, films and computer games. Advertising and TV revenue saw good growth over the period and the division's songs were licensed by a huge range of brands including Orange, Bacardi, Lee Jeans, Starwood Sheraton and Verizon. In the mobile arena, there has been a shift from ring tones to newer products such as master tones and ring backs. The structure of the industry means that it is taking longer for the division to receive payment for these newer mobile revenue streams. We are working hard to resolve this issue and, while we are making good progress, we recognise that it may take some time before we fully capture our share of income for these products. Overall, we believe that synchronisation revenues will continue to be an engine for growth in the coming months and years.

Other revenues comprise receipts from stage productions, background library and enforcement actions. We have intensified our efforts in the area of enforcement in recent years, resulting in an increasing contribution from this activity. By their nature, enforcement revenues tend to be irregular and unpredictable and they were lower in the first half versus the prior year.

Recent and forthcoming releases from artists including Beyonce, Natasha Bedingfield, Kelly Clarkson, Daddy Yankee, Diddy, Snoop Dogg, Good Charlotte, Il Divo, Jay-Z, Norah Jones, My Chemical Romance, Scissor Sisters, Sting, Kanye West and Amy Winehouse will underpin the division's second-half performance.

Part III
Finance
Underlying trading

Group revenue decreased by 4.1% at constant currency in the first half of the year, comprising flat revenues for EMI Music Publishing and a 5.2% decrease in first-half revenues for EMI Music. At constant currency there were revenue decreases in all geographic regions apart from North America, where there was a 1.5% increase. The impact on translation from the material strengthening of Sterling during the period resulted in a further 2.0% decrease in revenue against the equivalent period in 2005/06. Overall, Group reported revenue decreased from £924.6m in the first half of the 2005/06 financial year to £867.9m in the equivalent period in 2006/07, a decrease of 6.1%.

Group underlying profit from operations (EBITA)[i] for the first half fell by 27.7% to £62.7m. EMI Music Publishing's contribution, after allocation of central costs, increased to £51.2m from £48.4m in the prior year, whilst that of EMI Music, again after allocation of central costs, fell to £11.5m from £38.3m. North America and Asia Pacific were the only geographic regions to report an increase in EBITA.

The above results are stated post the impact of the accounting fraud at EMI Music's business in Brazil which we announced on 25 October 2006. The fraud resulted in statutory revenues for EMI Music for the first half being reduced by £11.0m and EBITA being reduced by £9.0m from the levels indicated in the 16 October 2006 Trading Update. In light of our investigations to date, we believe that the one-off financial impact of the fraud, is limited to the above amounts. However, given the disruption to the business, it is likely that EMI Music's operations in Brazil will underperform in the full financial year.

The Group's share of profit from associates increased from £0.6m in 2005/06 to £0.7m in 2006/07.

Group underlying finance charges decreased from £46.3m in the first six months of 2005/06 to £44.8m in the equivalent period in 2006/07. The decreased finance charges, which resulted from lower average net borrowings, favourable changes in the mix of borrowing currencies, and higher notional net interest on pension fund assets, were achieved in spite of generally higher interest rates.

The Group's underlying tax charge decreased from £9.0m to £4.1m in the first half of the year. As in prior years, the underlying tax rate used in the calculation of the tax charge for the first half year was the proforma rate for the full year. For both 2005/06 and 2006/07, the rate is 22.0%.

The Group's underlying profit on ordinary activities after taxation[ii] decreased from £32.0m in the first six months of 2005/06 to £14.5m in 2006/07.

Underlying basic earnings per share[ii] were 1.4p in the first half of 2006/07 compared with 3.9p in the first half of 2005/06. Underlying diluted earnings per share, the calculation of which includes the impact of the possible exercise of dilutive share options, decreased over the same period from 3.8p to 1.4p.

Notes:
(i) Underlying Group profit from operations (EBITA) is before operating exceptional items and amortisation and before share of profit in associates.
(ii) Before exceptional items and amortisation.

Exceptional items and amortisation
Exceptional items and amortisation comprise operating exceptional costs, finance exceptional costs and amortisation of music copyrights and intangibles.

The Group reported operating exceptional income of £13.8m in the first half of 2006/07 compared with income of £2.6m in the first half of the prior year. In 2006/07, the exceptional income comprised gains on the sale of properties totalling £53.5m (mainly in Japan and the USA), less the costs of the headcount reduction and reorganisation project of £33.5m, and the costs of £6.2m incurred in connection with the potential acquisition of Warner Music Group.

The Group reported net finance exceptional costs relating to remeasurements of £5.6m compared to a credit of £28.6m in the first half of 2005/06. The two most significant elements of this movement were the loss on revaluation to fair value of the convertible bond derivative of £16.5m (2005/06: £14.2m gain), and the fair value revaluation of the Eurobond call feature derivative asset of £1.5m credit (2005/06: £14.2m credit). The remainder of the reported total in each year mainly arose from foreign exchange movements on unhedged borrowings.

Amortisation and impairment of music copyrights and other intangibles amounted to £23.6m in the first half of 2006/07 in comparison with £25.4m in the equivalent period last year.

Reported results
Total Group profit from operations, including share of associates, for the first six months of 2006/07 was £53.6m compared to £64.5m in the prior period. This reflected the partial offset of the reduction in total Group profit from operations by the increase in operating exceptional income. Total Group profit before taxation was £3.2m in the first half of 2006/07 as against £46.8m in the equivalent period of 2005/06.

The minority interest charge reduced from £1.1m in the prior year's first half to £0.5m in 2006/07. This primarily reflected the results of TOEMI, our Japanese recorded music business, and Tooth & Nail, a US music label.

The Group reported a loss on continuing operations after taxation for the first half of £30.1m as compared to a reported profit of £37.8m in the first six months of 2005/06.

The Board has declared an interim dividend of 2.0p per share, in line with the interim dividend last year.

Cash flow and net borrowings

The net cash outflow from operating activities was £156.1m for the first half of 2006/07 compared with an outflow of £79.0m in the first half of the prior year. The increased cash outflow was driven by reduced underlying profit, cash spend on the reorganisation programme and a working capital outflow, reflecting sales phasing.

The net cash inflow from investing activities was £76.9m in comparison with an outflow of £3.7m in the first half of the prior year. The higher amount in 2006/07 was the consequence of the proceeds from property disposals in Tokyo and Los Angeles.

The net interest payment totalled £66.0m in the first half of 2006/07. As in prior years, the cash interest paid was higher than the charge in the consolidated income statement as the interest on the Group's Sterling bond was paid in one instalment in May 2006.

After net interest payments, dividends to shareholders and minorities of £14.1m and other payments of £3.7m, the increase in net debt resulting from cashflows was £164.2m, similar to the movement in the first half of 2005/06. After currency exchange gains of £28.9m and fair value remeasurements of £8.8m, the total movement in net debt was an increase of £126.5m, taking reported net debt to £1,006.0m at 30 September 2006. Given the seasonality in our business, net debt at the half year is typically higher than at the financial year end.

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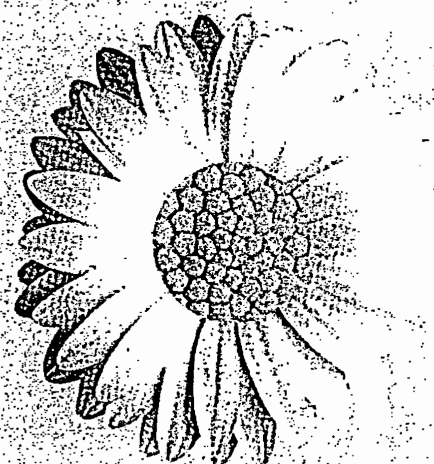


PolyGram

annual report 1997

building value

financial highlights

in millions of Netherlands Guilders, unless stated otherwise

Income statement data

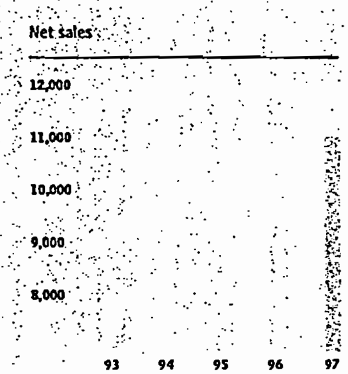
Income statement data	1997	1996	% growth
Net sales	11,095	9,488	17
Income from operations	1,198	1,078	11
Net income before extraordinary result	787	722	9
Extraordinary result after tax	–	(114)	–
Net income after extraordinary result	787	608	29
Net income per share before extraordinary result (NLG)	4.37	4.01	9
Net income per share after extraordinary result (NLG)	4.37	3.38	29

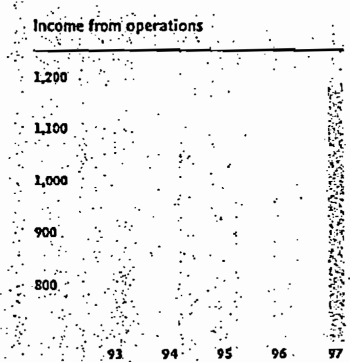
Balance sheet data

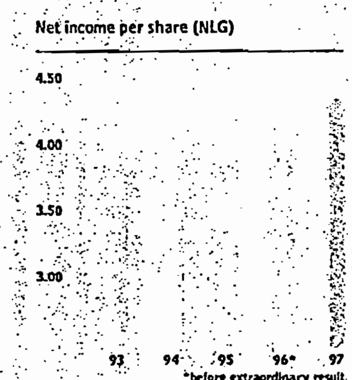
Total assets	11,312	9,409	20
Shareholders' equity	4,143	3,302	25
Gross cash flow from operating activities	2,014	1,626	24

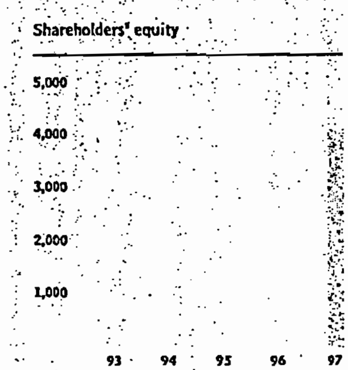
Key events of 1997

- PolyGram maintained its leadership position in the worldwide music market
- 38 albums sold 1 million units or more
- PolyGram produced and distributed the best selling single of all time, Sir Elton John's tribute to the late Diana, Princess of Wales, *Candle in the Wind 1997*
- PolyGram won 3 Oscars®
- PolyGram launched mainstream theatrical distribution in USA
- PolyGram agreed to acquire the CDR library of film rights with over 1,000 titles









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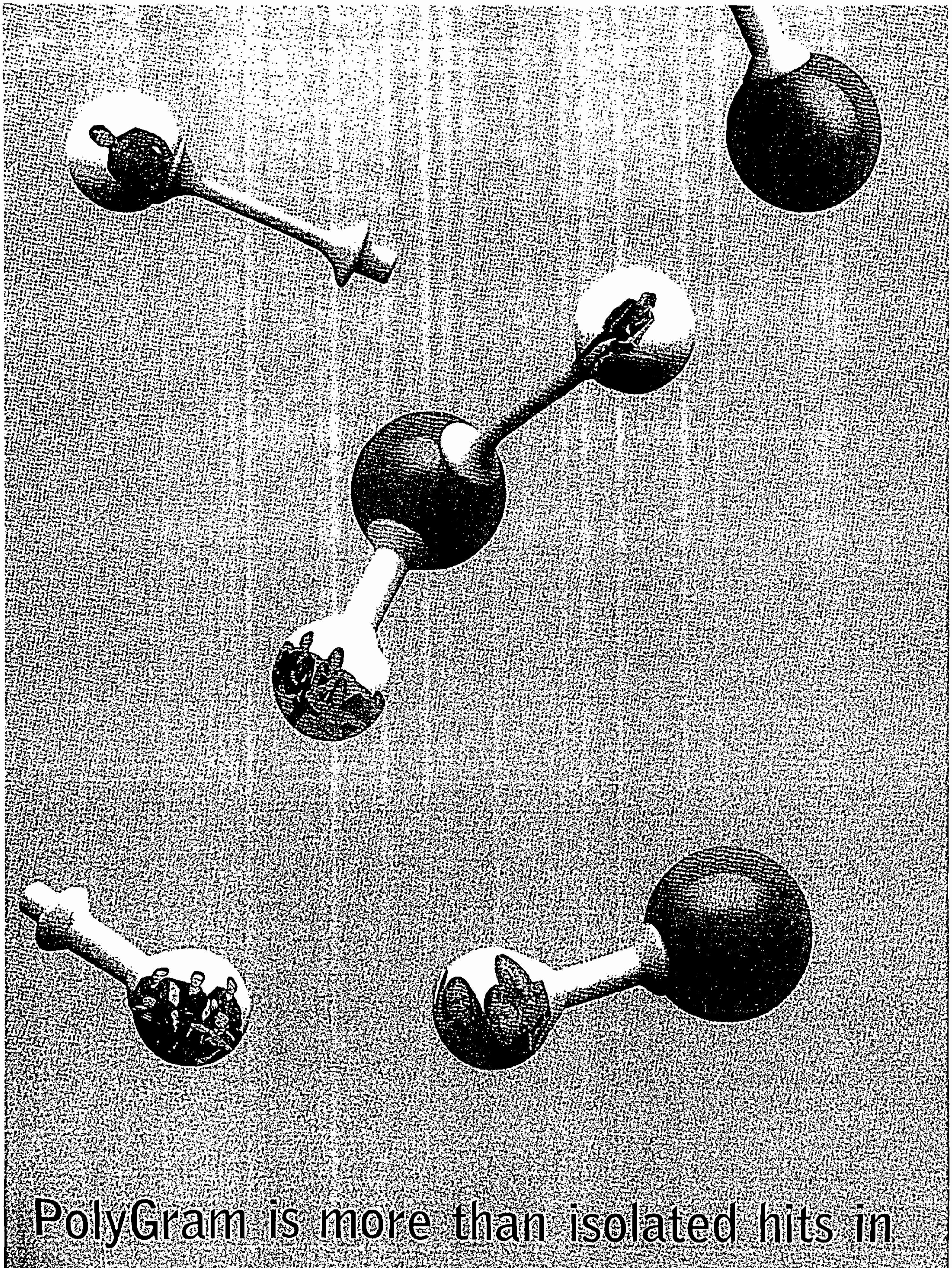
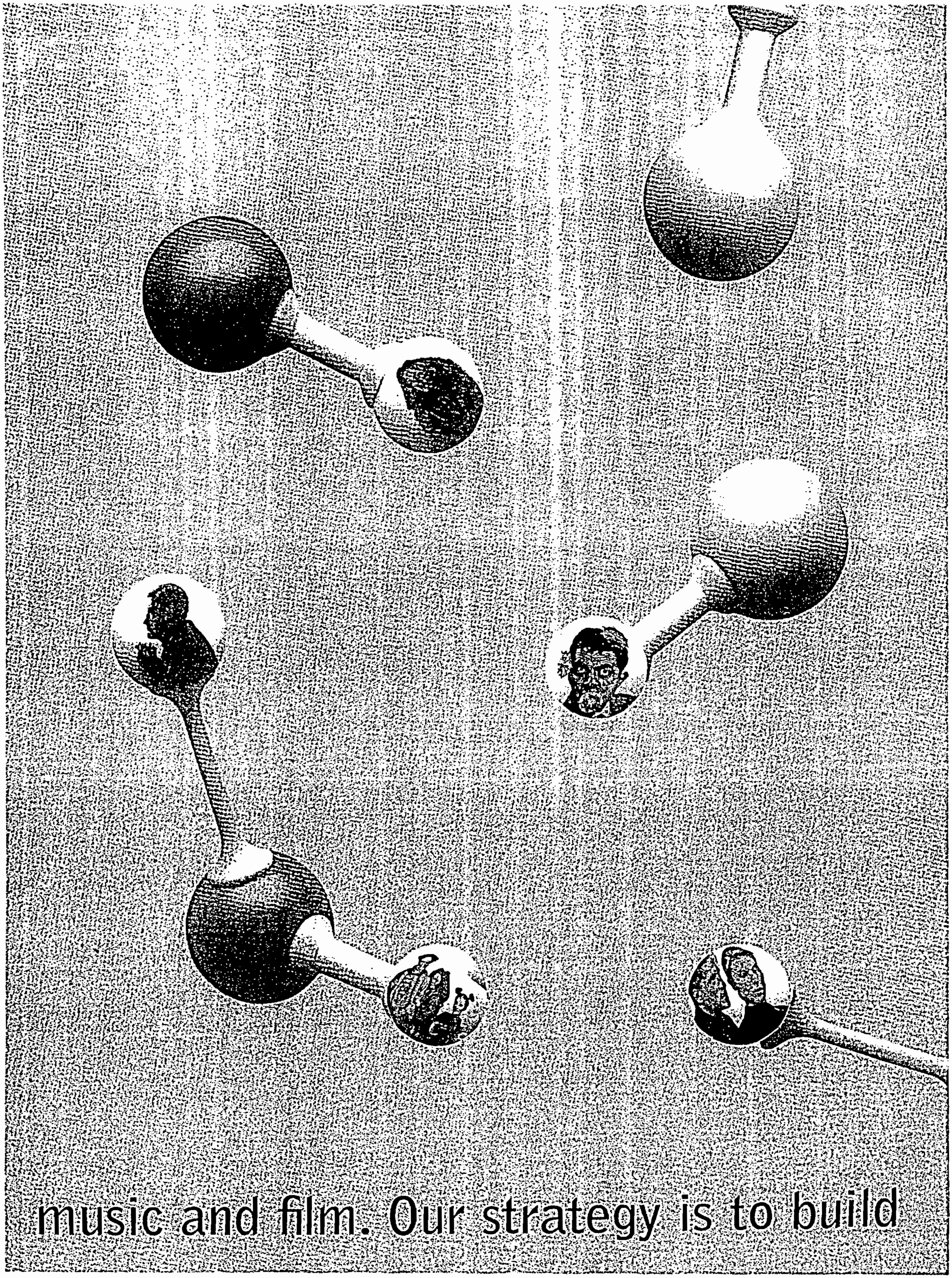
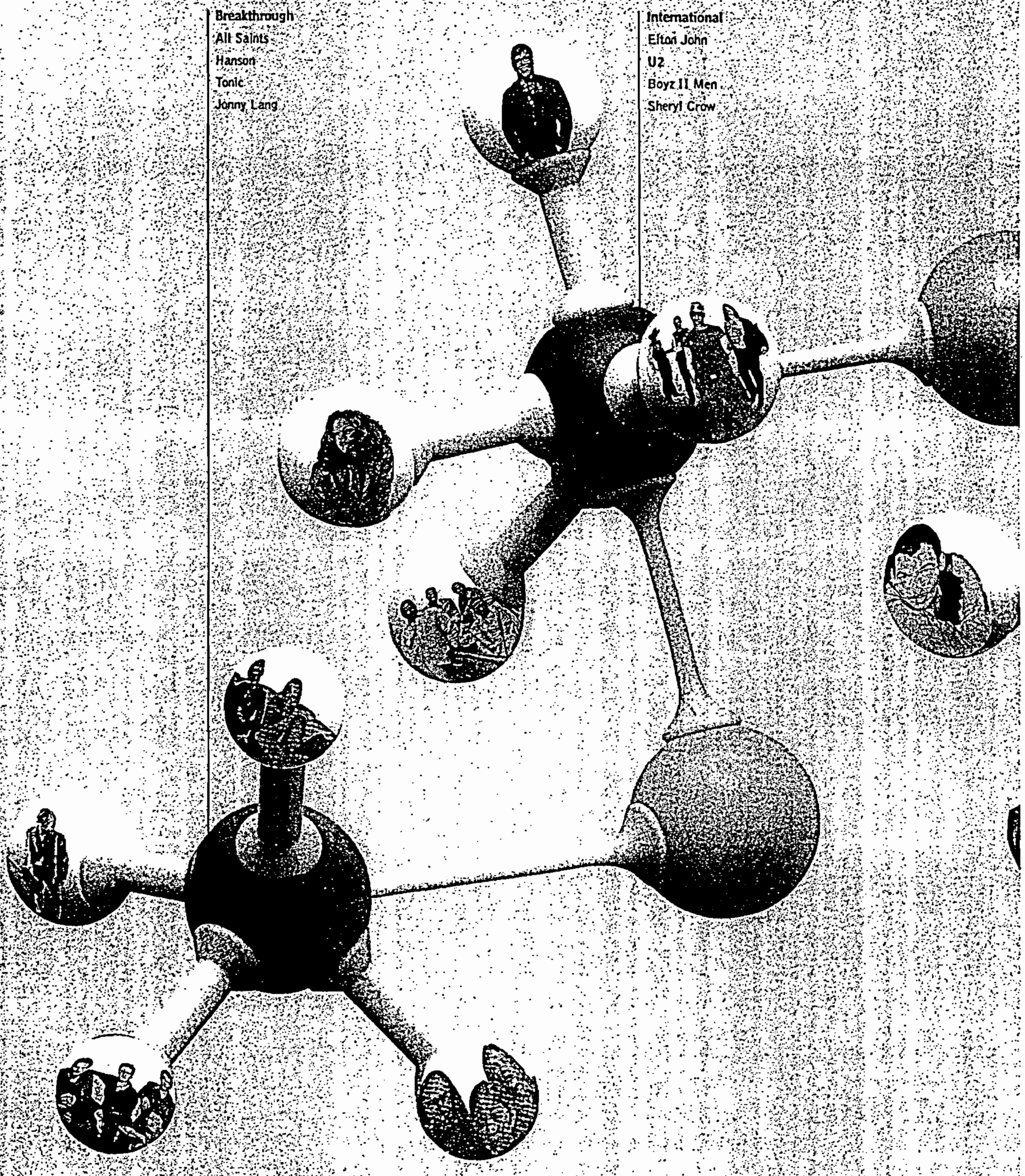

PolyGram is more than isolated hits in

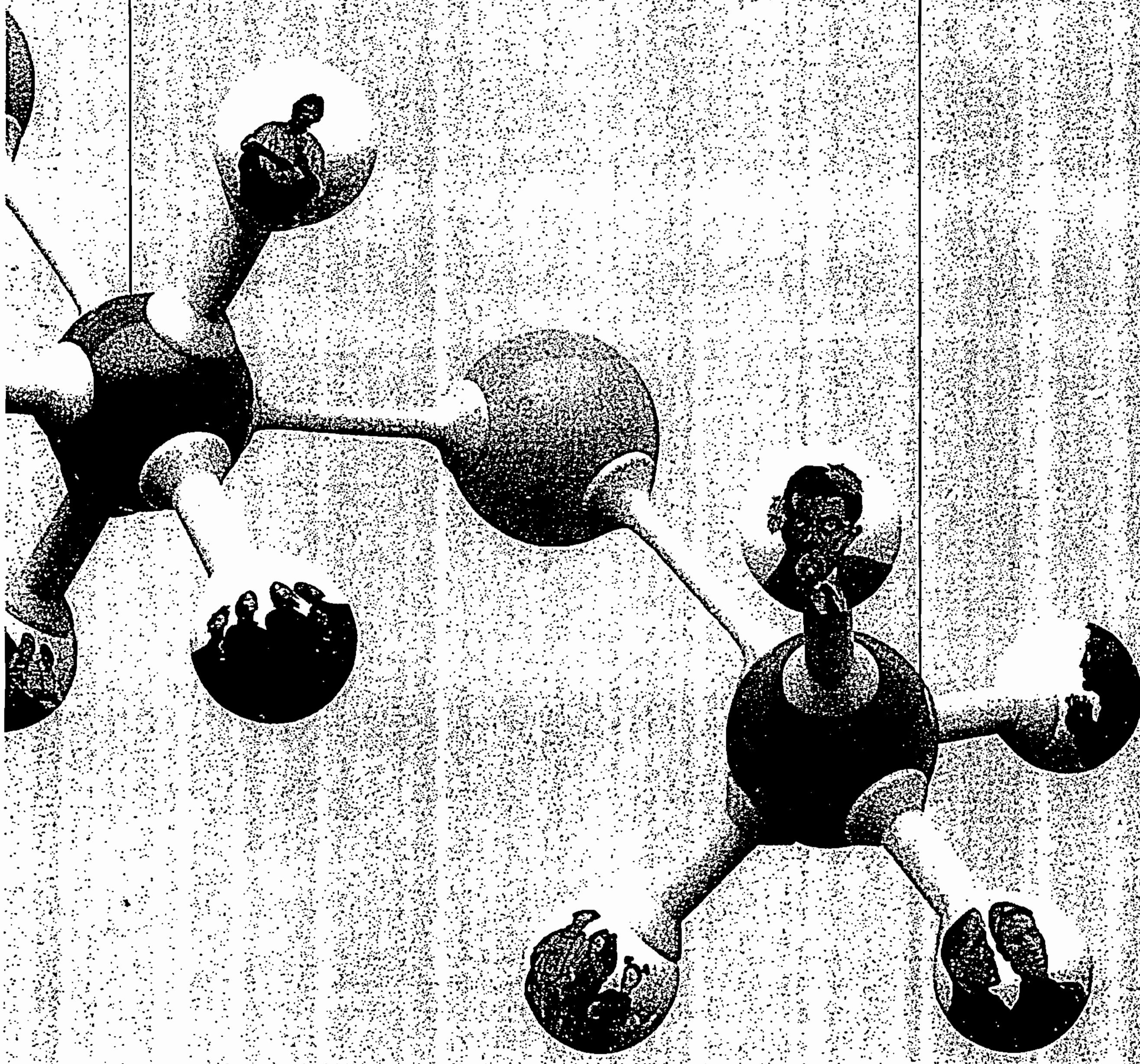

music and film. Our strategy is to build



value through developing our catalogues

National
Andrea Bocelli
Glay
É o Tchan
Florent Pagny

Film
Bean: The Ultimate Disaster Movie
Sleepers
The Game
The Borrowers



of high quality entertainment content.

president's statement

PolyGram's best selling albums of 1997 characterise the diversity of a music repertoire whose breadth and depth produced outstanding music results in the year. Hanson's debut album *Middle of Nowhere*, *Romanza* by Andrea Bocelli and U2's *Pop* each sold more than five million units. These hits represent the extensive range of talent, from breakthrough to local to international artists, which together with sound management, are the heart of our business. In a year when market conditions proved difficult for the music industry, PolyGram was able to draw on these strengths to increase profitability and maintain the number one position in the worldwide music business.

Alain Lévy
President and Chief Executive Officer

Creating value is about more than just delivering higher earnings on an annual or quarterly basis. It requires a balance between short-term achievements and long-term objectives. At PolyGram, building value means managing our business to benefit not just from this year's hits, but also from growing an asset base which will provide the foundation for future earnings potential. In 1997, we did both.

Unlike many industries, where assets decline in value and products have a finite shelf life, our assets, through careful management of artistic talent and exploitation of catalogues, continue to grow and are the starting point for generating income in many different ways for many years. The earning power of a music catalogue far exceeds one original hit recording and the cash flows from a film library can often outstrip initial box office receipts. These assets also provide the base from which we fund and develop new ventures to ensure that PolyGram's repertoire is constantly rejuvenated.

In the course of an impressive year for the music division, when 38 albums sold one million units or more, we used those assets to generate today's income and ensure tomorrow's profitability. Breakthrough acts including Hanson, All Saints, Tonic, The Mighty Mighty Bosstones and Jonny Lang demonstrated the strength of our A&R activity. We achieved national success with Era in France, É o Tchan in Brazil and Glay in Japan, whose *Review* became Japan's biggest selling album in history, while Boyz II Men, Elton John, The Bee Gees, Bryan Adams and Jon Bon Jovi were amongst the strong performers internationally.

During 1997, we also focused on restructuring both our pop and classical labels, a process which started in 1996, and on strengthening our management teams. Changing tastes in music and the need to adapt to a tougher retail environment prompted the actions we took and these have already started to deliver benefits.

In the US, while we believe the difficult retail environment of the past two years has begun to improve, the actions we have taken to adjust overheads in line with market conditions will serve to strengthen our position there. The process of restructuring will continue as we re-shape our US music business to take account of the executive and artistic talent available to our labels. Although the financial crisis in Asia may have an impact on demand in that region during 1998, we remain confident of the long-term growth potential of Asia's music and filmed entertainment markets.

Our goal of building value is equally evident in filmed entertainment. When we entered the film business six years ago, we viewed it as an excellent opportunity to expand our business into higher growth markets and to transform PolyGram into a worldwide entertainment company. Over the past six years, we have developed the capability to produce approximately 20 feature films annually and distribute them ourselves across more than 80% of the global movie market. To complement our production and distribution facilities, we have amassed one of the largest film libraries in the business. The establishment of PolyGram Films, our mainstream distribution arm in the US, and the agreement to acquire a film library which will triple the size of our catalogue to over 1,500 titles are just two of PolyGram Filmed Entertainment's achievements in 1997.

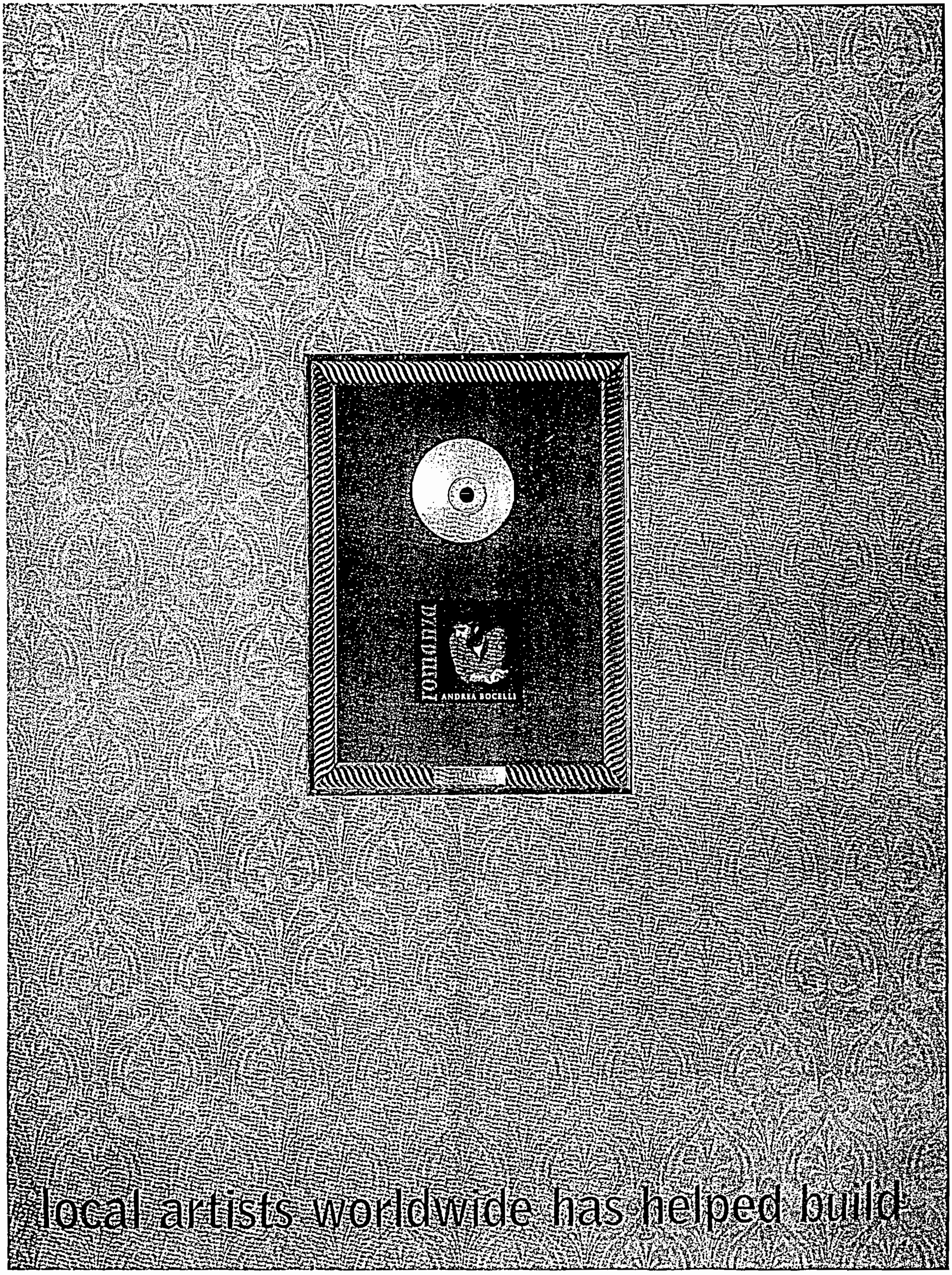
In 1990, PolyGram's net profit was NLG 357 million. Today, that figure has more than doubled to NLG 787 million, representing 12% compound annual growth. Throughout that period we have captured and maintained the market leadership position in music while firmly establishing ourselves in the filmed entertainment business.

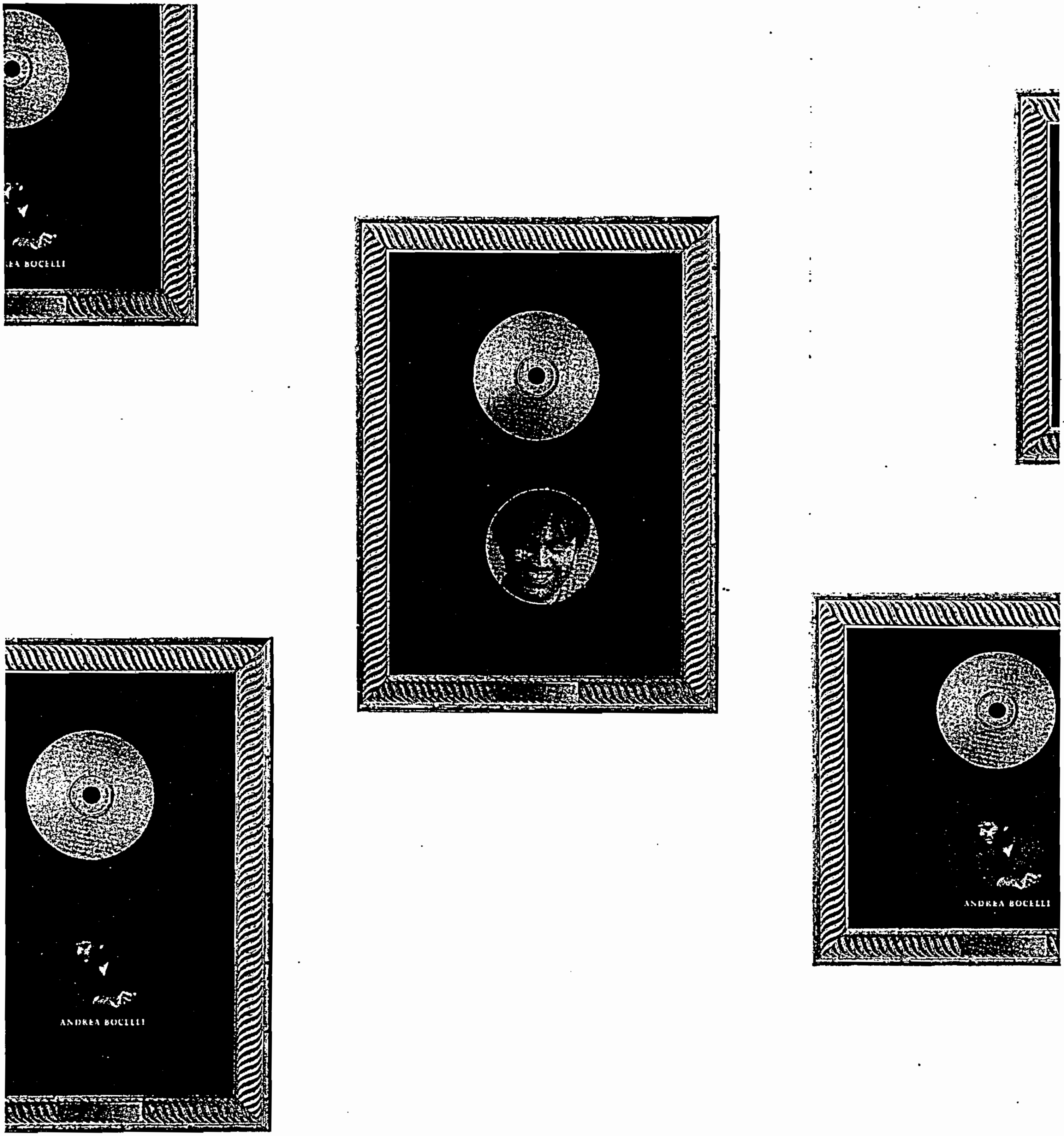
At a time of rapid change in the entertainment industry, there is no set recipe which guarantees the results we reported in 1997. Our assets are unique creative talent and quality catalogues which are the basis of future prosperity as well as present success.

The following pages will provide a snapshot of PolyGram in 1997. What we hope you will see is not just the immediate results of one year's work by our artists, management and staff, but our efforts to create and sustain long-term growth. What we ask of everybody involved in this business is ideas, the vision to build assets with long-term value and to use them in ways which benefit our shareholders, artists and employees. Our success in 1997 should be seen in those terms, and I thank all those who have contributed to it.

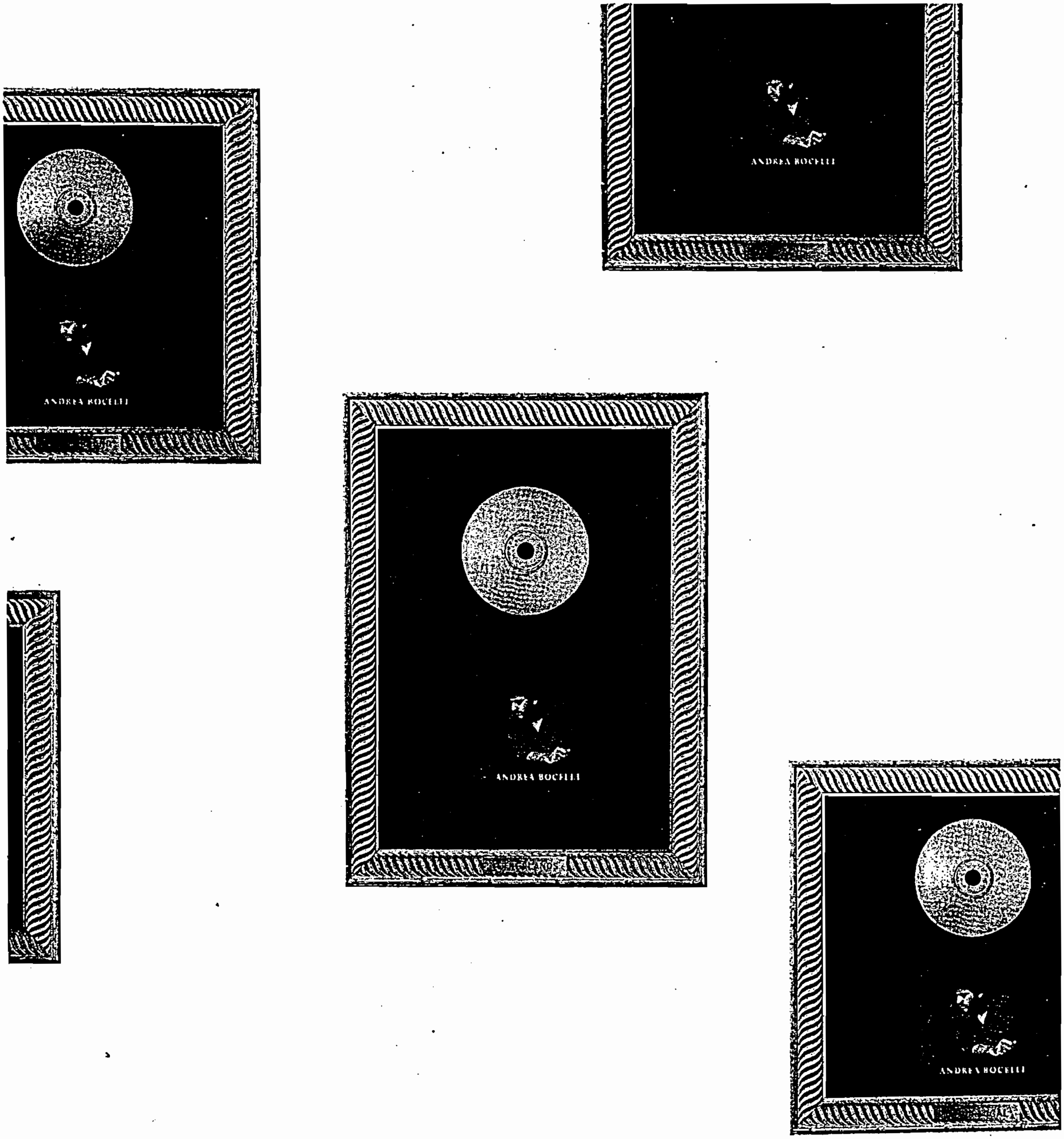
Alain Lévy
President
February 11, 1998

Our unparalleled strength in developing


ANDREA BOCELLI
local artists worldwide has helped build



multi-platinum, international success



for the Italian tenor, Andrea Bocelli.

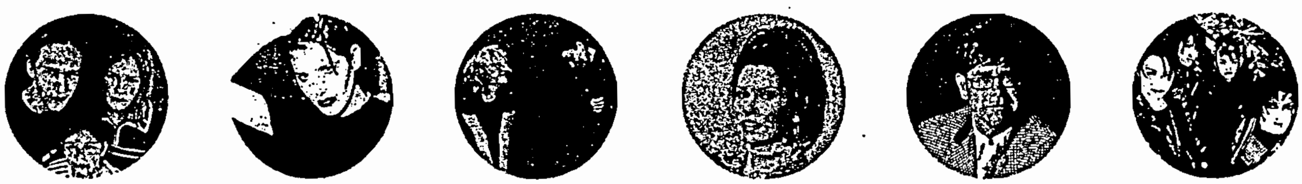
pop music

Andrea Bocelli, the tenor from Tuscany, achieved star status reaching out to audiences across Europe, North America, Asia and Latin America. PolyGram's rich repertoire of local, regional, international and breakthrough artists delivered hits and built value during 1997.

The combination of this broad, diverse talent base, solid management and an expanding catalogue enabled the music division to increase profits by over 17%, reflecting the strength of our position within the industry. During the year, 38 albums sold one million units or more in a market that proved challenging for music companies. For PolyGram, 1997 pop music sales increased by 18% despite this challenging environment.

1997's hits included *Review* by Glay, Japan's highest selling album of all time with 4.5 million units, U2's *Pop* which sold 5.5 million units, Shania Twain's second album, *Come on Over,* which sold four million units, and Elton John's *The Big Picture* which sold over three million units. New names also gave us spectacular hits. Our best selling album of the year, *Middle of Nowhere* from Hanson, sold over eight million copies worldwide. Other breakthrough artists included Roni Size, Alisha's Attic, Tonic, The Mighty Mighty Bosstones, OMC, All Saints and Jonny Lang, reconfirming our ability to find and develop fresh talent.

From left to right
Hanson
Texas
Alisha's Attic
Shania Twain
Elton John
Glay
Sheryl Crow
LL Cool J
The Bee Gees
Jon Bon Jovi
Jacky Cheung
Apocalyptica



During the year, PolyGram was instrumental in the worldwide manufacture and distribution of Sir Elton John's tribute to the late Diana, Princess of Wales, *Candle in the Wind 1997.* The single, which became the world's best selling single of all time, has sold over 33 million units. All profits will be donated to the Princess' Memorial Fund. An initial £20 million was donated to the fund at the end of 1997.

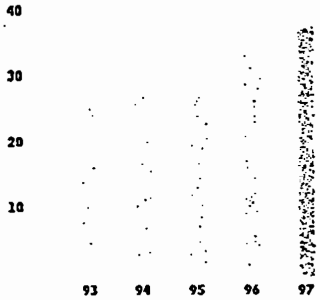
Our extensive portfolio of national and regional artists continued to produce impressive results in 1997. In territories like Japan, Brazil and France, chart success and increased market share illustrate our commitment to national repertoire. The merits of our strategy to develop local acts and strengthen local management can be seen through artists including Portuguese group Excesso, Finland's heavy metal cello quartet Apocalyptica and Edyta Bätosiewicz, a new Polish star in the rapidly expanding eastern European pop music market. There were also hits from French artists Florent Pagny and Era, Rammstein of Germany, Brazilian acts Banda Eva and É o Tchan, Mexico's Limité and Jacky Cheung from Hong Kong. Our achievements in national repertoire demonstrate how major stars can now emerge anywhere in the world and that the trend towards multi-cultural music, which PolyGram, with its strong multi-national culture has helped pioneer, is now firmly established.

Amongst our other top selling international releases were albums from The Bee Gees, Jon Bon Jovi, Bryan Adams, LL Cool J and Metallica. For newer artists, the challenge of producing successful follow-up albums was met with impressive results by Boyz II Men, Lighthouse Family and Sheryl Crow. Greatest hits albums from Sting and the Police, Soundgarden and John Mellencamp show how additional revenue can be generated by capitalising on catalogue. In the case of UK band Texas, the marketing skills and commitment of PolyGram executives in

Top 10 best selling albums in 1997

Artist	Album	Units '000s
Hanson	Middle Of Nowhere	8,400
Andrea Bocelli	Romanza	6,800
U2	Pop	5,500
Glay	Review, The Best Of Glay	4,500
Shania Twain	Come On Over	4,000
Boyz II Men	Evolution	3,900
Elton John	The Big Picture	3,300
The Bee Gees	Still Waters	3,000
Jon Bon Jovi	Destination Anywhere	2,700
Hanson	Snowed In	2,600

Albums selling over one million units



93	30
94	29
95	31
96	34
97	38

repositioning an established act, combined with the band's own talent, produced a worldwide hit in 1997. Their fourth album *White on Blonde* sold 2.4 million units.

Looking to the future, developments in technology will provide us with further opportunities to exploit our music and film catalogues and to reach a wider audience. PolyGram already has a major presence on the Internet, using it to promote our artists and allow site visitors to explore our diverse music offerings. The Internet and other media may provide channels of direct distribution to customers, resulting in greater choice and convenience of purchase. Owning content puts PolyGram in a powerful position to benefit from these new technologies. Although there are still major unresolved issues such as copyright protection, we are closely monitoring developments in these areas and the legal framework surrounding them.

Music markets rarely stand still. Taste and consumer demand are constantly changing, whether through changes in fashion or demographics. The restructuring of our music division over the past year reflected these market changes, with the goal of maximizing the creative energy of our music labels. The formation of the Mercury Group in the US and new senior management at Island are examples of the steps taken to strengthen our labels. Motown is still in the course of its



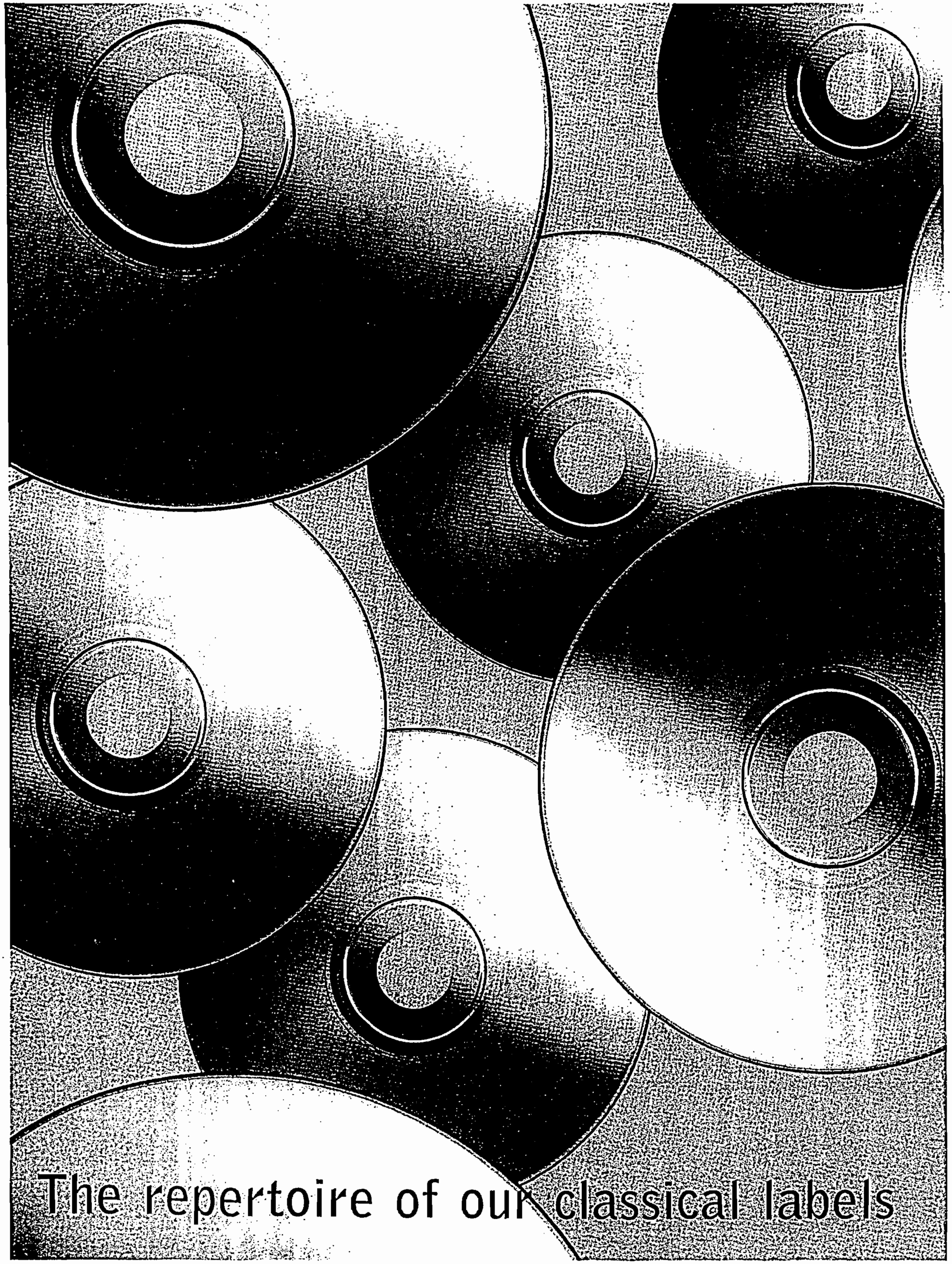



redevelopment, but with new management and a streamlined operation, it is positioned to benefit from its expanded artist roster, unique back catalogue and brand awareness around the world. As it celebrates its 40th anniversary in 1998, our approach will be to invigorate and harness the potential of these assets, while pursuing new avenues of growth.

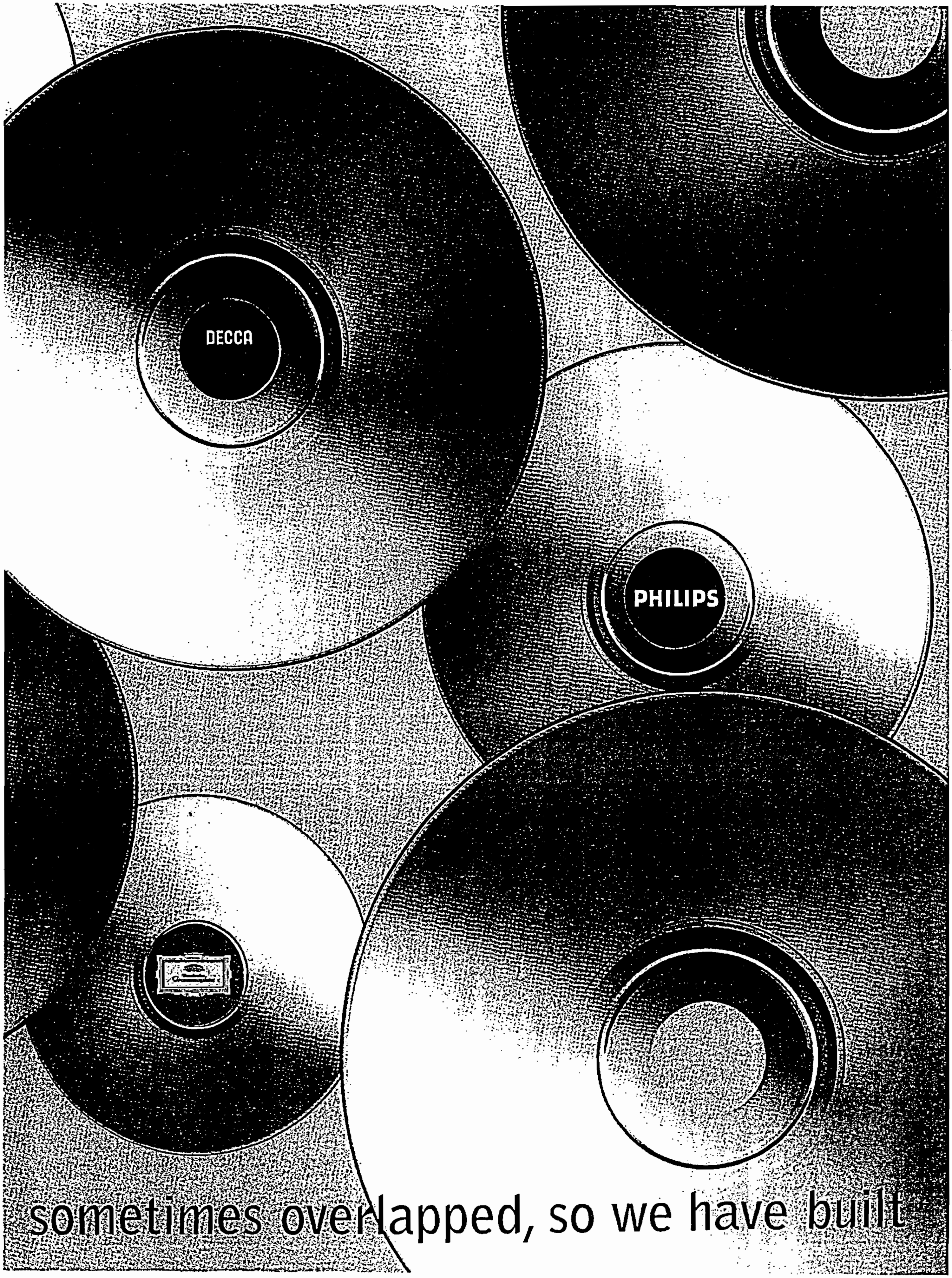
In 1997, the emphasis was on refocusing our music operations and strengthening our commitment to A&R activity. This has provided the base from which we will continue to build long-term value with the aim of increasing our worldwide market share.

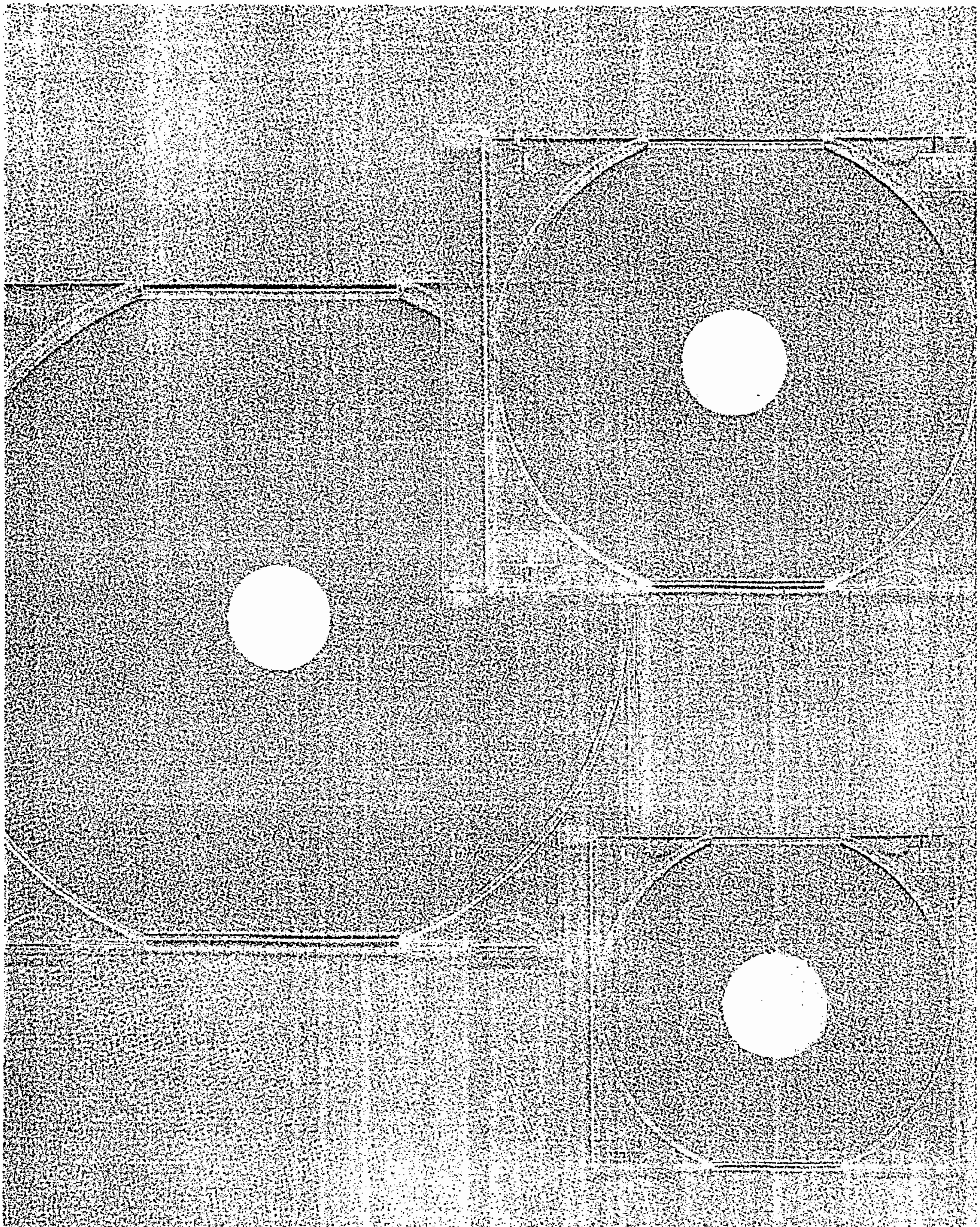
Top 3 selling albums by market

Artist	Album	Units '000s
US		
Hanson	Middle Of Nowhere	4,470
Shania Twain	Come On Over	3,333
Boyz II Men	Evolution	2,456
Japan		
Glay	Review, The Best Of Glay	4,500
Kyosuke Himuro	I De A	671
Boyz II Men	Evolution	477
UK		
Texas	White On Blonde	1,228
All Saints	All Saints	589
Lighthouse Family	Ocean Drive	532
Germany		
Andrea Bocelli	Bocelli	1,598
Andrea Bocelli	Romanza	850
Rammstein	Sehnsucht	721
France		
Andrea Bocelli	Romanza	1,804
Era	Era	912
Florent Pagny	Savoire Aimer	861
Brazil		
É o Tchan	É o Tchan Do Brasil	1,974
Banda Eva	Aol Vivo	1,217
Chitaozinho	Natal Sertanejo	994



The repertoire of our classical labels

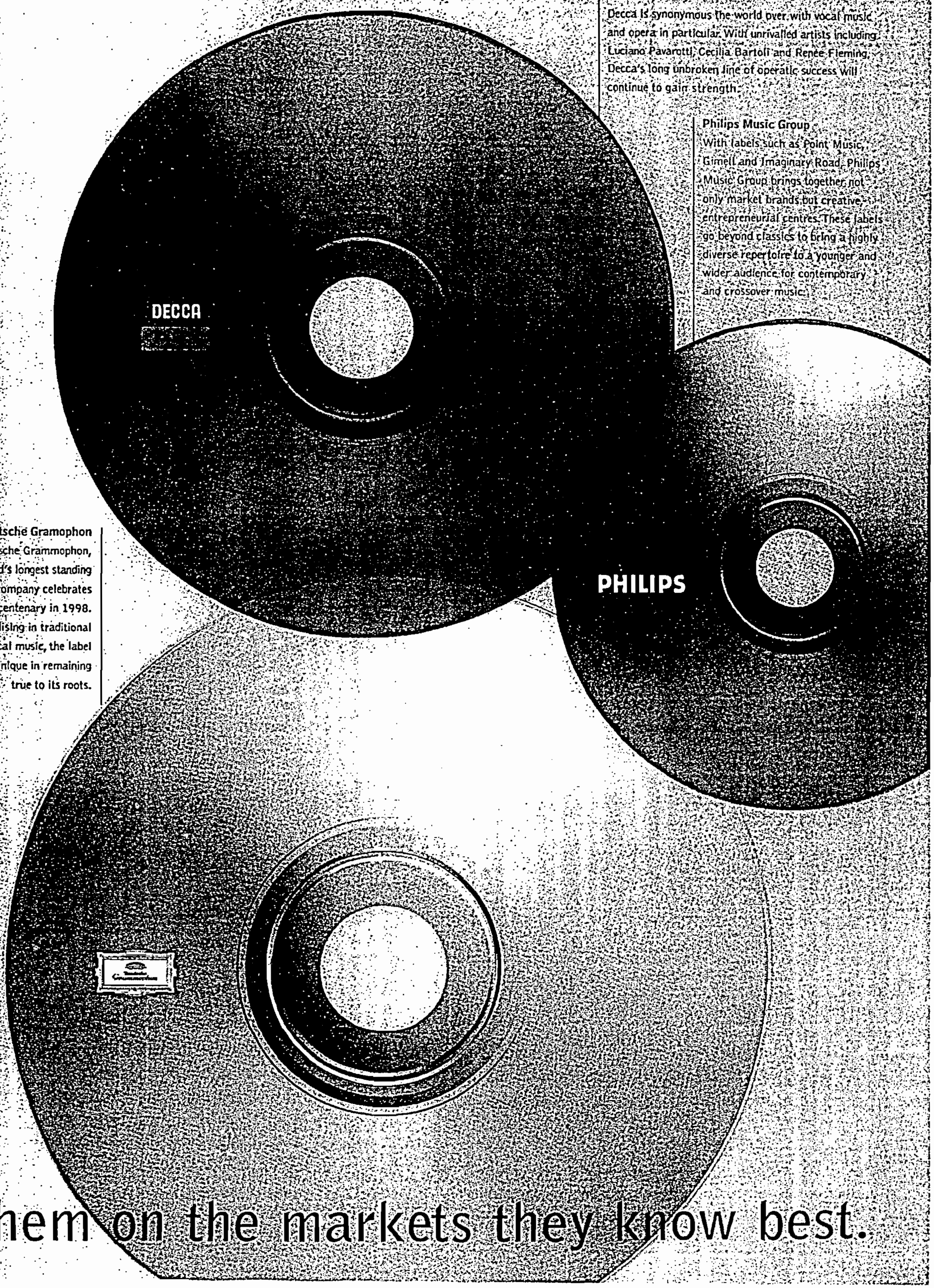

DECCA
PHILIPS
sometimes overlapped, so we have built



on their inherent strengths and focused

Decca
Decca is synonymous the world over with vocal music and opera in particular. With unrivalled artists including Luciano Pavarotti, Cecilia Bartoli and Renée Fleming, Decca's long unbroken line of operatic success will continue to gain strength.

Philips Music Group
With labels such as Point Music, Gimell and Imaginary Road, Philips Music Group brings together not only market brands but creative entrepreneurial centres. These labels go beyond classics to bring a highly diverse repertoire to a younger and wider audience for contemporary and crossover music.



Deutsche Gramophon
Deutsche Grammophon, the world's longest standing record company celebrates its centenary in 1998. Specialising in traditional classical music, the label is unique in remaining true to its roots.

them on the markets they know best.

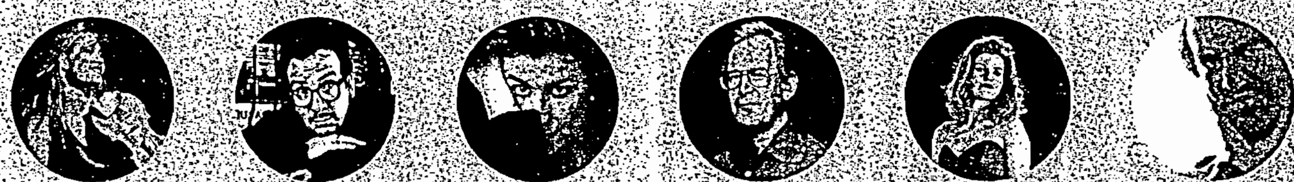
classics and jazz

A revolution in consumer tastes has created the challenge of new audiences for classical music. A new tier of creative repertoire in classics has expanded the traditional horizons of classical music, while different methods of marketing and managing repertoire have become essential in a more diverse market with a new generation of customers.

The restructuring of our classical labels has been an important step towards matching this new market mood. During 1997, our aim was to provide each of our labels, Deutsche Grammophon, Decca/London and the Philips Music Group with distinct identities that would enable them to realise value through clearer branding and a new, more focused creative drive. From our strong position as market leader, we have concentrated on rationalising operations, strengthening repertoire with new artist signings and broadening the audience for classical music.

A significant element in reaching this enlarged consumer base is discovering and developing new artists who appeal to younger audiences. Among the highly talented younger artists signed to our labels are Russian conductor Valery Gergiev, Michael Kamen, Leila Josefowicz and soprano Renée Fleming.

Classics and jazz artists from left to right
Leila Josefowicz
Elvis Costello
Cecilia Bartoli
John Eliot Gardiner
Anne-Sophie Mutter
Valery Gergiev
The Three Tenors
Herbie Hancock
James Levine
Charlie Haden and Pat Metheny
Renée Fleming
Luciano Pavarotti



Meanwhile the long-term commitment of our established artists was secured with a number of new exclusive long-term contracts during the year, with opera singer Cecilia Bartoli, violinist Anne-Sophie Mutter, the pianist Maria João Pires, the conductor John Eliot Gardiner and the Academy Award winning composer, John Barry.

Restructuring has also sharpened our attention on developing national classical repertoire, for which there is a growing market, with artists like Norway's Gli Scapoli, Akiko Suwanai from Japan, John Tesh from the USA and Wibi Soerjadi of The Netherlands. The genre of world music, which includes for example the music of India and Africa, is attracting increasing consumer interest. Under the Point Music label which is part of the Philips Music Group, this genre has become part of our strategy to build a broader and more cross-cultural repertoire in classics.

The balance between developing our business in new ways and continuing to exploit our traditional strengths is reflected in our range of artists and repertoire. Deutsche Grammophon celebrates its 100th anniversary in 1998 with a fresh view on expanding the audience for its rich catalogue of traditional classical music. At Philips Music Group, crossover albums, which give a more contemporary flavour to classical repertoire, are an important part of our release schedule. Elvis Costello, whose music ranges from pop to jazz and classical, is set to become an important artist for PolyGram through the recent signing of a worldwide, multi-label deal. Andrea Bocelli will also add an exciting contemporary dimension to our repertoire with his first classical album of arias in 1998.

Market changes demand different ways of promoting and selling classical music. Product alliances and cross marketing projects include TV and event records such as 1998's *Three Tenors III* album, *Pavarotti and Friends V* and our joint marketing initiative with Penguin Books.

Best selling albums

Artist	Album	Units
Martin Neary	Diana, Princess of Wales	1,306,000
OST	Shine	851,000
OST	Braveheart	489,000
Luciano Pavarotti	Pavarotti's Greatest Hits	334,000
Luciano Pavarotti	The Greatest Opera Show	222,000
Carreras, Domingo, Pavarotti	In concert	190,000
Cecilia Bartoli	A Hymn For The World	189,000
Wiener Philharmonic	Mozart Symphonies Nos 36 & 40	166,000
Andrea Bocelli	Viaggio Italiano	141,000
Cecilia Bartoli	An Italian Songbook	130,000

Jazz music has been subject to many of the same market forces as classics. A trend towards contemporary and world music and the increasing emphasis on international superstars, like Herbie Hancock and new signing Al Jarreau, have provided an opportunity to broaden the appeal of jazz music. Verve, PolyGram's jazz label, was voted the number one jazz label by Billboard for the second year running and its artists were nominated for 18 Grammy awards. In order to maximise its efforts and resources, Verve's global A&R activities have been reorganised, with one centre in New York and a second in Paris. This reorganisation is part of our goal to maintain our market leadership in traditional jazz and establish Verve as the number one label in contemporary jazz music too.

music publishing

Musical copyrights are immensely valuable assets and the publishers who acquire, manage, defend and market them have a major role to play in the entertainment business. PolyGram has a catalogue of more than 385,000 songs for which new avenues of exploitation are constantly






opening up. Every music or lyric user must pay for the use of that material. That means every broadcaster, concert venue, recording artist, film producer, advertising agency, TV production company, airline, computer game designer and others for whom music is a vital ingredient of their output, is a potential user of our music.

The enduring value of great songs is proven every year. Freddie Perren and Dino Fekaris' classic *I Will Survive*, originally a hit for Gloria Gaynor two decades ago, enjoyed two new chart incarnations during 1997. Cake's deadpan version made the grade in the UK and Australia whilst in France the Hermes House Band had a big hit with it. Teenage country star LeAnn Rimes celebrated a major crossover success with her cover of *You Light Up My Life* by Joe Brooks, originally a hit for Debby Boone in 1977. Jerome Kern's 1933 song *Smoke Gets in Your Eyes* was a top earner for the year alongside Jim Steinman's *It's All Coming Back to Me Now*, a global hit for Celine Dion.

Repackaged back catalogue items such as *ABBA Gold* continue to sell in large quantities. In recent years, the widespread practice of sampling one song in order to create a new one has brought new opportunities to exploit copyrights and has resulted in a valuable source of income for PolyGram. In 1997, sampling brought us hits from artists such as The Prodigy, The Rolling Stones and Janet Jackson.

The rapid expansion of the broadcast business has increased demand for music in all centres of film and TV production. PolyGram songs were featured on several successful soundtracks in 1997 including *Men in Black*, *Space Jam*, *Romeo and Juliet* and *Batman and Robin*. Our composers are also involved in providing the original scores for film and TV production. David Hirschfelder, who wrote the original scores for *Shine* and *Strictly Ballroom*, is now working on the music for PolyGram Filmed Entertainment's *Elizabeth*, scheduled for release in 1998.

Best selling single recordings

Artist	Song title
LeAnn Rimes	You Light Up My Life
Natalie Imbruglia	Torn
Ultra Nate	Free
Paradisio	Bailando
Rosie Gaines	Closer Than Close
Spice Girls	Spice Up Your Life

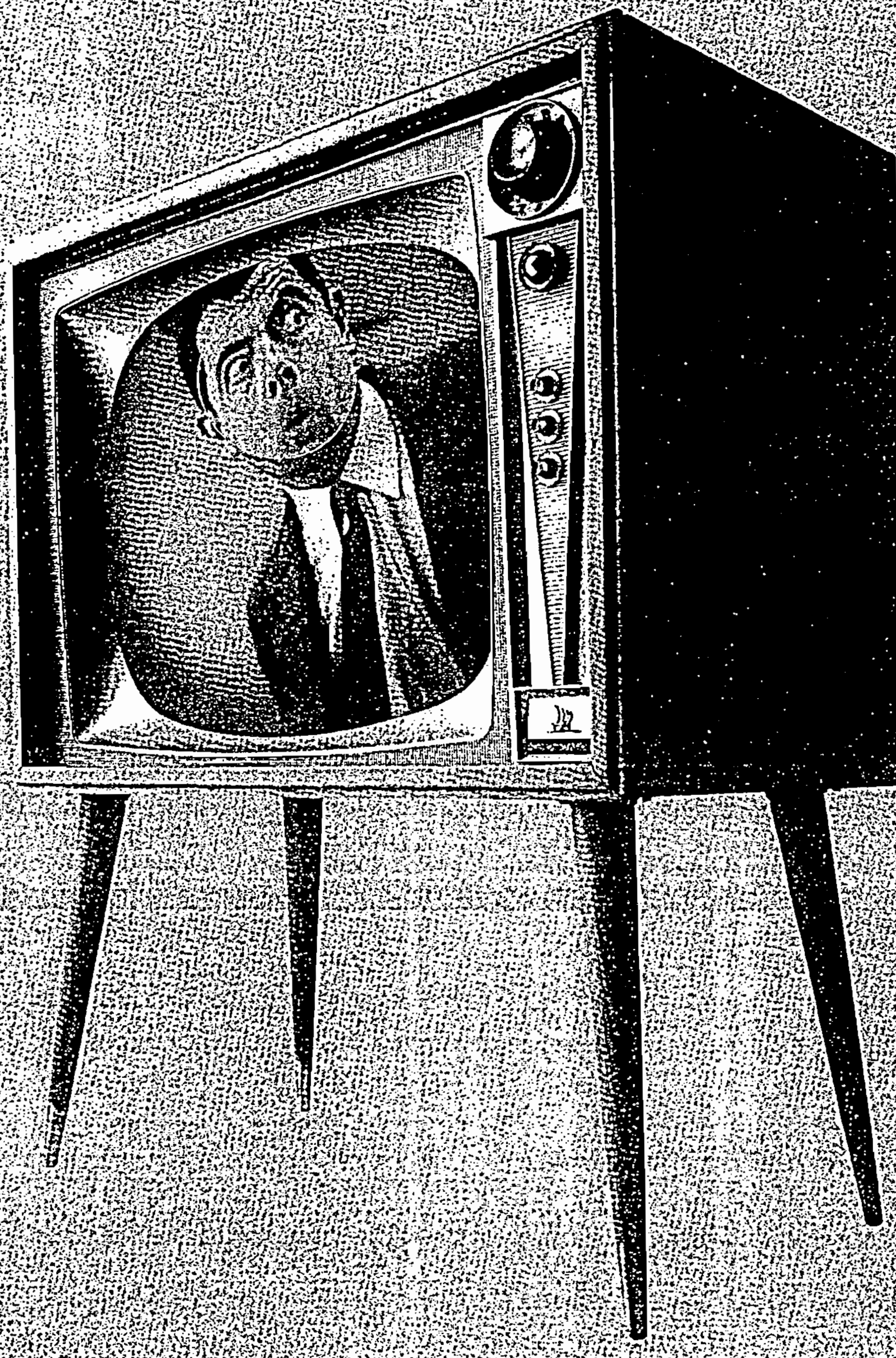
1997 Publishing best sellers

Artist	Album
André Rieu	Strauss & Co
Beastie Boys	Licenced to Ill
Björk	Homogenic
Faye Wong	Toys
Jacky Cheung	San Tian Lian
Lighthouse Family	Ocean Drive
U2	Pop
Shania Twain	Come On Over
The Corrs	Forgiven, Not Forgotten
Spice Girls	Spice
Celine Dion	Falling Into You
Era	Era

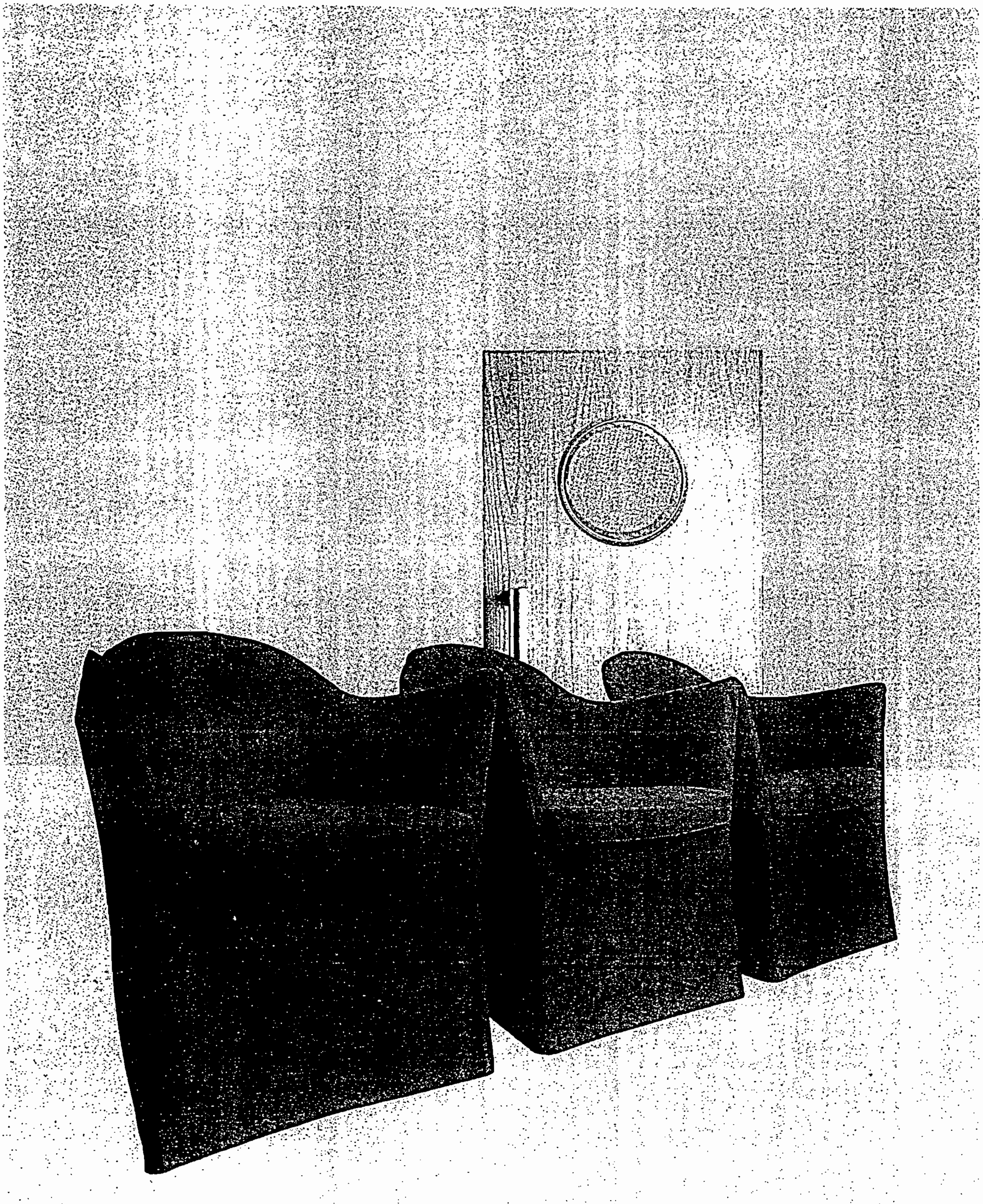
Publishing catalogue best sellers

Artist	Album
ABBA	ABBA Gold
Andrew Lloyd Webber	The Phantom Of The Opera
Bon Jovi	Cross Road
The Cranberries	No Need To Argue
Elton John	Love Songs
Bob Marley	Legend
Van Morrison	Best Of
Metallica	Metallica
INXS	Greatest Hits

Mr Bean started as a cult comedy act



on British television. Today he has built



a worldwide following with his videos

and a phenomenal big screen debut.

film

The resounding success of *Bean: The Ultimate Disaster Movie* illustrates the value that can be realised from an existing entertainment asset. Bean, a character brought to life by Rowan Atkinson, was largely known only to television audiences, but in 1997 PolyGram Filmed Entertainment (PFE) introduced him to moviegoers around the world. Through a highly effective marketing and awareness campaign which began in Australia, the film gathered momentum as it was released by our distribution companies. The result was a worldwide hit that has generated over US$220 million at the box-office to date.

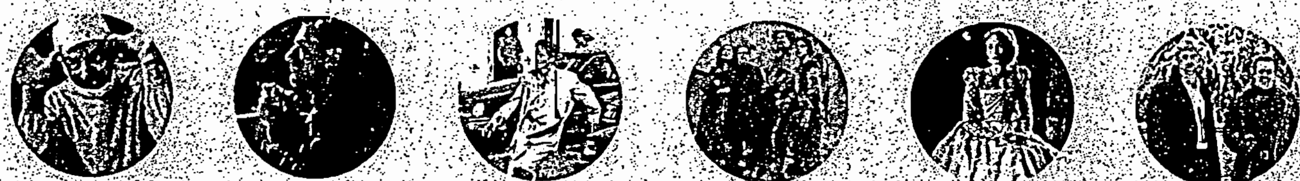
PFE's development over the past six years has seen a steady build up of valuable entertainment assets. In line with our strategy to become a major player in the movie business, 1997 saw the further enhancement of our distribution capabilities, film catalogues and creative relationships. With the strengthening of these core elements, we believe PFE has fortified its position to compete in an industry poised for long-term growth.

Filmed entertainment, along with sports programming, is a prime choice to fill the hours of screen time created by hundreds of new television channels. Pay TV, for example, which is currently the fourth largest source of revenues for film distributors, is forecast to be the fastest growing industry segment between 1995 and 2000. Our recent acquisition of the CDR catalogue, combined with our existing titles, has created one of the largest modern day film libraries in the industry with over 1,500 titles. As such, PFE is well-positioned to become a major supplier of films to television programmers, with the opportunity to generate quality cash flows.

Building on our existing network, in 1997 we established PolyGram Films, our mainstream distribution company in the United States and commenced our own distribution activities in Germany and Switzerland. PolyGram Films will focus on larger budget, advertising-driven films while Gramercy Pictures will continue to distribute smaller budget, publicity-driven films. *The Game*, starring Michael Douglas, was PolyGram Films' first release and it achieved the number one position at the box office in its opening weekend. Using the same administrative systems, Gramercy and PolyGram Films are able to develop marketing and advertising campaigns specific to their area of expertise. PFE's expanded infrastructure now covers over 80% of the worldwide theatrical box office market.

To support this expanded distribution network, film production activity at our production companies increased during the year. Planned releases for 1998 include *The Borrowers*, based on the best selling children's novel, *The Big Lebowski*, the latest film from the award winning Coen Brothers starring Jeff Bridges and John Goodman, *Barney's Great Adventure*, a children's film starring the loveable purple dinosaur, *What Dreams May Come*, starring Robin Williams and Cuba Gooding Jr., *Elizabeth*, starring Cate Blanchett and Jeffrey Rush, *Hi-Lo Country* with Woody Harrelson and Patricia Arquette and *Plunket and Macleane* starring Robert Carlyle and Liv Tyler.

Complementing our existing production capacity, PFE entered into several new first look arrangements including Tony and Ridley Scott, directors of *Blade Runner*, *Aliens* and *Top Gun*,



From left to right

Bean: The Ultimate Disaster Movie
Sleepers
The Game
The Borrowers
Elizabeth
Fargo
Lord of the Dance
Hi-Lo Country
Plunket and Macleane
The Big Lebowski
Barney's Great Adventure
Motown Live

PFE distribution network

Country	% of world market
North America	45%
Germany/Austria	9%
France	7%
UK/Ireland	7%
Italy (effective 1998)	4%
Australia/New Zealand	3%
Spain	3%
Benelux	2%
Switzerland	1%

First look deals

Norman Lear's Act III
Jane Campion
David Fincher
Jodie Foster's Egg Pictures
Robert Jones' The Jones Company
Philip Noyce
Alan Parker's Dirty Hands
Tim Robbins' Havoc Inc.
Scott Free Productions
Russell Simmons' Def Pictures

Alan Parker, director of *Evita, The Commitments* and *Mississippi Burning*; Philip Noyce, director of *The Saint* and *Clear and Present Danger*; Jane Campion, director of *The Piano*; and Robert Jones, producer of *The Usual Suspects*. Our deal with Warner Brothers to co-finance and co-distribute four to five films a year from Castle Rock Entertainment will give PFE access to high quality films from the company that produced *When Harry Met Sally, In the Line of Fire* and *A Few Good Men*, among others.

While initial ticket sales are important, the life of a movie does not end with the credits. Video and television are important sources of income and are businesses from which PFE continues to derive value. During 1997, video sell through successes included *Lord of the Dance, Fargo* and the *NFL's Superbowl XXXI*. The strong market reception to Bean's theatrical debut also spurred sales of the Bean series of videos. In addition, PolyGram Video recently obtained the exclusive home video rights to Major League Baseball programming in North America.

PolyGram Television was formed in 1997 to promote and sell our catalogue films to television channels and to produce new programmes for television, examples of which include *The Crow* and *Battleground Earth*. *Motown Live*, which is a new one-hour weekly music and comedy variety

series, will be aired in Autumn 1998 in the USA. The show will feature live musical performances from artists topping Billboard's charts, building on the Motown tradition of breaking barriers and establishing the highest standards in musical entertainment.

The technology of distributing television programming is set to change dramatically over the next few years. The arrival of digital TV, the encouraging initial response to Digital Video Disc in the United States and Asia and the increasing number of pay-per-view and video-on-demand channels all offer new possibilities and earning potential for the producers of films and television programming.

Good films begin with good scripts and story lines. PFE is no different: creating this asset has taken time, creative talent and a clear vision of how the plot will develop. Since 1992, we have kept to our script and have built one of the leading global suppliers of filmed entertainment. In its sixth year of operation, PFE's revenues have grown to NLG 1.8 billion, representing a compound annual growth rate of 27%. From this strong positon, we believe PolyGram Filmed Entertainment is well placed to generate positive returns as well as appreciate in value as the digital revolution creates new opportunities over the coming years.

Notable titles in film library

Existing
Bean: The Ultimate Disaster Movie
Dead Man Walking
Fargo
Four Weddings and a Funeral
The Last Seduction
On Golden Pond
The Usual Suspects
Sleepers
Sophie's Choice

1998 CDR acquisition
Bill & Ted's Excellent Adventure
A Chorus Line
City Slickers
The Commitments
Fabulous Baker Boys
The Graduate
Honeymoon in Vegas
My Left Foot
Platoon
When Harry Met Sally

Top video sell-through titles in 1997

Title	Units
Lord of the Dance	867,000
Fargo	532,000
NFL – Superbowl XXXI	243,000
Best of Mr Bean	153,000

5 year financial review

Selected financial data in millions of Netherlands Guilders, except per share data

Consolidated statements of income	1997	1996	1995	1994	1993
Music sales	9,304	7,947	7,563	7,605	6,733
Film sales	1,791	1,541	1,235	995	683
Net sales	11,095	9,488	8,798	8,600	7,416
Music operating income	1,307	1,113	1,152	1,111	–[b]
Film operating loss	(109)	(35)	(68)	(42)	–[b]
Operating income	1,198	1,078	1,084	1,069	932
Net income before extraordinary result	787	722	741	738	614
Extraordinary result after tax	–	(114)	–	–	–
Net income after extraordinary result	787	608	741	738	614

Consolidated balance sheets

Cash	694	414	607	753	582
Total assets	11,312	9,409	8,201	7,968	6,850
Long-term liabilities	260	285	319	337	415
Shareholders' equity	4,143	3,302	2,735	2,408	2,023

Consolidated statements of cash flow

Gross cash flow from operating activities	2,014	1,626	1,533	1,471	1,164
Net cash flow from operating activities	813	739	993	562	613
Investing activities	(302)	(480)	(656)	(522)	(875)
Financing activities	(230)	(463)	(458)	143	509

Per share

Net income before extraordinary result	4.37	4.01	4.12	4.10	3.56
Extraordinary result after tax	–	(0.63)	–	–	–
Net income after extraordinary result	4.37	3.38	4.12	4.10	3.56
Gross cash flow from operating activities	11.19	9.03	8.52	8.17	6.75
Dividends	1.00[a]	0.95	0.95	0.85	0.75

[a] Proposed dividend for 1997

[b] Disclosed as from 1994

financial contents

report of the board of management and financial review 1997

Description of business, objectives and strategy

PolyGram is an entertainment company whose principal activity is the acquisition, production, marketing, manufacture and distribution of recorded music. The Company also has certain related activities, such as music publishing and participations in TV music channels. PolyGram is the largest recorded music company in the world in terms of 1997 sales. PolyGram's aim is to position itself as a diversified entertainment group with a significant presence in filmed entertainment. In line with this aim, PolyGram is continuing to expand its film business based on the Company's belief that technological advances in visual media are increasing demand for audio-visual software.

PolyGram's strategy for growth seeks to balance organic development and geographic expansion with acquisitions that expand its music and film catalogues and its know-how. PolyGram's approach revolves around multiple autonomous creative labels with central financial controls and support functions. By relieving these units of responsibility for manufacturing, distribution and finance, PolyGram believes it encourages artistic creativity and marketing innovation.

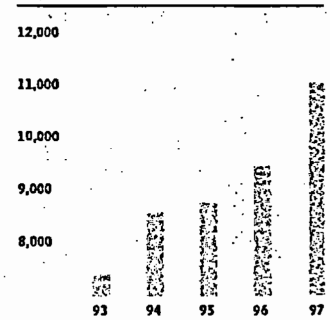
Jan Cook
Executive Vice President
and Chief Financial Officer

1997 review

During 1997, PolyGram reported a 17% increase in net sales. The strength of the music releases, particularly in the second half of the year, enabled the Group to achieve a 17.1% increase in music sales despite the soft market conditions that prevailed in a number of countries for most of the year. Music operating profit grew 17.4% over the prior year due to continued efficiencies in manufacturing and distribution and the initial benefits of the restructuring. The film division reported a 16% improvement in sales, but reported a loss due to the under-performance of several films and the start-up costs associated with the expansion of its distribution and television operations. Group operating income and net income before extraordinary items for the year increased 11% and 9%, respectively.

PolyGram remained the number one music company in the world, increasing its share in several local music markets, and continued to build its worldwide film production and distribution capabilities.

Net sales in NLG millions



93	7,416
94	8,600
95	8,798
96	9,488
97	11,095

Income statement

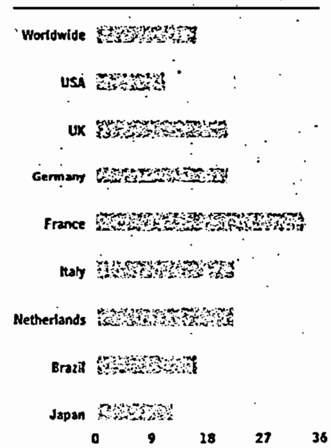
Net sales

Net sales increased 17% in Netherlands guilders (NLG) to NLG 11,095 million, benefitting from the continued strength of the US Dollar and Sterling. In local currency terms, net sales increased 7%.

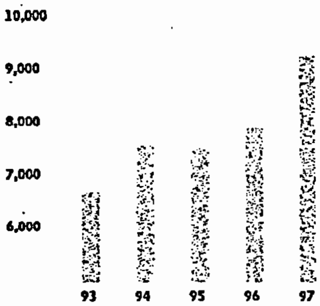
Acquisitions, new consolidations and operations

Of the 7% local currency sales growth, 1% was due to new consolidations. The net cash payment for these acquisitions was NLG 97 million (NLG 113 million in 1996). In music, we acquired the remaining 49% minority from Taurus Records (effective May 23, 1997) in Japan and 60% of What's Music International Inc. in Taiwan. By year end we had established controlling interests in our former licensees in the Philippines and Indonesia. In filmed entertainment, we expanded our distribution capabilities through the establishment of PFE Germany (effective January 1, 1997), PolyGram Films in the United States (May 2, 1997) and the acquisition of Monopole Pathé, a Swiss film distribution company (effective July 1, 1997). PolyGram Television was formed in March 1997, based on the existing infrastructure of our ITC division. During the year we sold our music and VHS cassette factory in The Netherlands. In December 1997, PolyGram announced its intention to acquire a library of film rights from Consortium de Realisation SAS (CDR) for approximately NLG 450 million (US$225 million). The acquisition, which was subject to both French and US Governmental approvals, became effective in January 1998.

PolyGram music market share in 1997 (%)

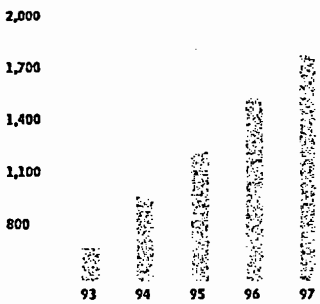


Music sales in NLG millions



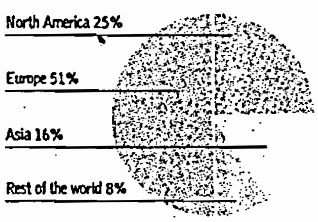
93	6,733
94	7,605
95	7,563
96	7,947
97	9,304

Film sales in NLG millions



93	683
94	995
95	1,235
96	1,541
97	1,791

1997 net sales by region



Performance by segment

MUSIC

Music sales increased by 17.1% with operating income improving 17.4% to NLG 1,307 million. In local currencies, music sales increased 8%, despite the challenging market conditions that prevailed. The solid sales and operating income growth was attributable to the success of our national and international repertoire as well as the ability to continue to break new artists. Continued improvements in manufacturing and distribution and stringent control over expenses, as part of our restructuring efforts, also benefitted the operating result.

Included in music sales were the revenues from the sale of the charity recordings in memory of the late Diana, Princess of Wales. For the year, these releases contributed NLG 238 million in revenue. Of the 8% increase in music sales in local currencies, sales of these recordings accounted for 2.6%. PolyGram did not recognise any profit from this activity. By the end of 1997, an initial payment of £20 million (NLG 66 million) was donated to the Princess' Memorial Fund.

POP

Pop music sales grew 18% over last year and 38 albums sold one million units or more as compared to 34 in 1996. Our 1997 results benefitted from the broad-based success of our diverse artist roster.

CLASSICS AND JAZZ

PolyGram's classics and jazz sales increased a modest 3%. Under a new management team, the classics division has been refocused and streamlined in recognition of the changing marketplace. We are hopeful that the organisational changes made during the year will generate long-term benefits.

OTHER MUSIC

Other music, which includes music publishing, third party manufacturing and licence and fee income, grew a solid 21%. Music publishing, which signed artists of diverse genres, again had a strong year in 1997.

FILM

Film sales improved 16% to NLG 1,791 million. For the year, PolyGram Filmed Entertainment revenues represented 16% of total sales (16% in 1996). During the year significant progress was made towards expanding distribution and increasing our production activities for 1998 and beyond. The costs related to these efforts and the under performance of several films resulted in a divisional operating loss of NLG 109 million (NLG 35 million in 1996).

Performance by geographic region

EUROPE

European sales increased 15%, led by the strength of our national repertoire which in turn enabled PolyGram to increase market share in several countries. Solid sales growth was achieved in Europe's major markets, notably France, Germany, Italy, The Netherlands and Switzerland, as well as Scandinavia and parts of eastern Europe. Operating income improved 24% to NLG 798 million, representing an operating margin of 14.2% (13.1% in 1996) mainly due to lower audio product costs, less film losses and the benefits of the restructuring. In local currency terms, European sales improved by 8%.

ASIA

Sales in Asia increased 11.5% in NLG after two years of slight declines in revenues. The growth was achieved despite the region's mixed market conditions and our strategic decision to reduce third party product distributed in Japan. In recognition of the region's ongoing currency volatility and economic uncertainties, during the fourth quarter we increased provisions for returns and bad debts. These measures, coupled with higher promotional expenditures, contributed to a modest 1% improvement in operating income. In local currencies, sales increased 5%. Piracy continues to plague the region, particularly in Hong Kong. We remain hopeful, however, that ongoing industry efforts will be successful in abating this problem in the long-term.

NORTH AMERICA

Sales in North America improved 25% in 1997. The region sustained an operating loss of NLG 21 million (NLG 71 million profit in 1996). This loss was due to the increased film production activities and expanded distribution capabilities in the United States as we continue to build the Group's presence in filmed entertainment. The North American music operation reported an improved operating result, as we benefitted from a strong release schedule and a modest improvement in US market conditions. For the year, North American sales in local currencies increased 9%.

REST OF THE WORLD

Sales increased 19% due to the success of several national artists, most notably in Brazil, Mexico and Australia. Our strong release schedule enabled us to continue to improve market share in several of the local markets, including Brazil, Mexico, New Zealand and Venezuela. Operating income for the region increased 47% and operating margin represented an impressive 18.0% of sales (14.6% in 1996). In local currencies, sales improved by 5%.

Gross income

Gross income increased 16.5%. Gross margin declined modestly to 48.0% (48.2% in 1996) owing to increased film expenses and the contribution to the Princess' Memorial Fund by the company in relation to the charity recordings for the late Diana, Princess of Wales. These expenses offset the benefits derived from improved manufacturing efficiencies and a reduced dependence on low-margin distributed label activity in Japan.

Income from operations

Operating income improved 11.1%, yielding an operating margin of 10.8% (11.4% in 1996). The operating margin decline was attributable to a slight increase in selling expenses (as a percentage of sales) due to increased provisions for returns, the loss of overhead coverage associated with the charity recordings and the commencement of mainstream US film distribution. Also contributing to the margin decline was a marginal increase in selling, general and administrative expenses as a percentage of sales, due to new consolidations, additional staffing at our film division and higher goodwill amortization of NLG 63 million (NLG 45 million in 1996), partly offset by the savings benefit of the music restructuring.

Financial income and expense

Financial income and expense increased to a net cost of NLG 18 million as compared to NLG 8 million in the prior year. The increased expense was related to higher US Dollar and Sterling denominated borrowings, partly offset by higher interest income.

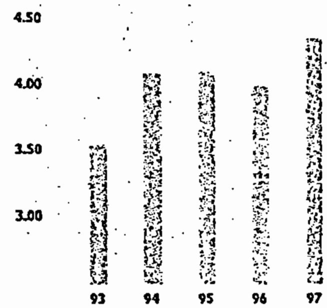
Taxation

The effective tax rate was 30% (29% in 1996). The effective tax rate increase was due to losses for which no tax benefit has been recognized in the year, partly offset by other tax effects.

Non-consolidated companies

The loss in non-consolidated companies was NLG 15 million (NLG 24 million in 1996). The reduced loss was the result of the fact that we reached the cap of our liability to finance start-up losses at MTV Asia, partly offset by losses at the Really Useful Group.

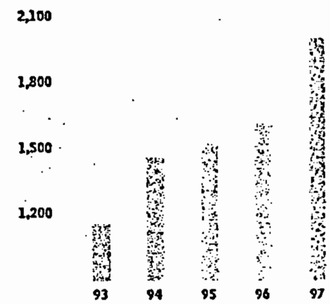
Net income per share (NLG)



93	3.56
94	4.10
95	4.12
96	4.01*
97	4.37

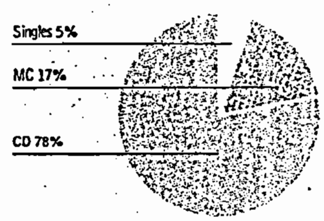
*Before extraordinary result.

Gross cash flow in NLG millions

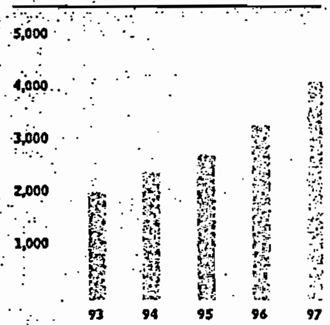


93	1,164
94	1,471
95	1,533
96	1,626
97	2,014

1997 net music unit sales by carrier



Shareholders' equity in NLG millions



93	2,023
94	2,408
95	2,735
96	3,302
97	4,143

Third party interests

Third party interests increased to NLG 23 million (NLG 14 million in 1996) related to the consolidation of new operating companies in the Far East with third parties maintaining a minority interest, which was reduced by lower financing charges of our subordinated notes of NLG 12 million (NLG 16 million in 1996).

Net income per share

Net income was NLG 787 million (NLG 722 million before extraordinary result in 1996). This represented net income per share of NLG 4.37 (NLG 4.01 before extraordinary result in 1996), based on 180 million shares outstanding.

Gross cash flow

Gross cash flow from operating activities increased 24% to NLG 2,014 million (NLG 1,626 million in 1996), which on a per share basis was NLG 11.19 (NLG 9.03 per share in 1996).

Dividend

PolyGram is proposing to increase its dividend from NLG 0.95 to NLG 1.00 per share, payable to shareholders in April 1998.

Balance sheet

Shareholders' equity

Shareholders' equity increased 25%. The improvement was helped by the growth in earnings, net of dividend, of NLG 607 million, translation gains of NLG 270 million, and other changes of NLG 2 million and were offset by transactions in our own shares, NLG 38 million, for employee stock option plans.

Working capital requirements

Music inventories increased modestly to NLG 476 million (NLG 471 million in 1996) despite the higher sales level and currency effects. Film inventories increased by NLG 234 million to NLG 979 million. Currency movements, principally the strength of the US Dollar, accounted for approximately 16% of the increase. Additional factors included the higher level of film production activity relative to last year, resulting in higher capitalised costs for unfinished films and print and advertising. At year end we have drawn down approximately US$192 million on our US$300 million film lease facility.

Split of assets

Total assets were NLG 11,312 million (NLG 9,409 million in 1996) of which NLG 9,314 million were identifiable as music assets (NLG 7,778 million in 1996) and NLG 1,998 million related to film (NLG 1,631 million in 1996). Music assets increased due to strong sales in the fourth quarter, acquisitions and positive currency movements. Film assets grew as a result of positive currency movements, higher capitalised costs for unfinished films and print and advertising.

Fixed asset investments

Capital expenditures decreased 29% to NLG 148 million (NLG 208 million in 1996), largely related to the completion of the upgrading of the manufacturing facility of our UK CD factory, acquired in 1996.

Liquid assets and liabilities

Long-term liabilities remained stable at NLG 260 million (NLG 285 million in 1996), whilst short-term borrowings increased to NLG 194 million (NLG 86 million in 1996). Short-term borrowings increased as a US Dollar position was built in order to finance the CDR library acquisition. With liquidity of NLG 694 million (NLG 414 million in 1996) less total long-term and short-term bank debt, PolyGram was cash positive at year end.

Financial currency risk

PolyGram is exposed to the risk of fluctuations in foreign currency exchange rates and interest rates due to the international nature and scope of its operations. A substantial portion of the Company's revenues and expenses are denominated in currencies other than the NLG and, when measured in NLG are affected by fluctuations in currency exchange rates. The Company is also exposed to risks from changes in interest rates. PolyGram seeks to mitigate its exposure to these risks through financial instruments with off-balance sheet risk. The Company does not enter into speculative positions.

PolyGram's results can be affected, as reported in NLG, by fluctuations in currency exchange rates, primarily relative to the US Dollar, the Yen and Sterling. The impact of such fluctuations can be significant in any given year, since approximately 97% of the Group's sales are generated in currencies other that the NLG.

PolyGram seeks to manage its exposure from the risk of adverse foreign currency fluctuations by hedging certain of its currency exchange exposures denominated in foreign currency. The Company primarily uses forward exchange contracts and, to a lesser extent, foreign currency options and currency swaps, to manage its foreign currency transaction exposure.

The Company uses interest rate swaps to seek to manage its interest rate risk. The extent of the use of these instruments is determined by reference to the Company's net exposure of its financial instruments to interest rate risk and management's views regarding future interest rates. PolyGram does not enter into contracts with a duration that extends beyond the life of the instrument being hedged.

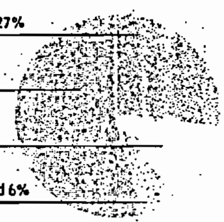
1997 geographical split of employees

North America 27%

Europe 54%

Asia 13%

Rest of the world 6%



Employees

At the end of 1997, the total number of PolyGram employees was 12,417 as compared to 12,545 at the end of 1996. A further headcount reduction of approximately 380 as part of our restructuring, following a reduction of 205 in 1996, occurred in 1997. In addition, headcount was reduced in excess of those identified in the restructuring, which was offset by employees from new consolidations and our growing film operations.

Outlook

Subsequent to the year end, PolyGram completed the acquisition of a library of film rights from Consortium de Realisation SAS (CDR) for approximately NLG 450 million (US$225 million). At this time, no other major acquisitions are anticipated. While we remain cautious about the growth prospects of music, particularly in light of the economic uncertainties in Asia, the solid improvement in second half music results in both Europe and Latin America and the improvement in the retail environment in North America have been encouraging. We do anticipate that further benefits from the music restructuring will be recognised in the coming year as we continue to reshape that division as market conditions demand.

With respect to film, we aim to continue to strengthen our production capabilities as well as expand the reach of our distribution network in order to capitalize on the increasing demand for content.

Corporate governance

The Board of Management welcomes the aims of the Peters Committee's report on corporate governance in The Netherlands. Companies are directed and controlled by corporate governance. Good governance has been and remains the responsibility of the whole Board. The Report of the Supervisory Board on page 55 discusses the Company's general reaction to the Peters Committee recommendations and its own compliance with them.

Having considered the recommendations of the Peters Report, the Board of Management considers that PolyGram N.V. complies with the Report to the extent that the recommendations are applicable to PolyGram and in the context of the Group's position, except as detailed below:

The Board of Management has not formally presented its assessment of the system of internal controls to the Supervisory Board, but will do so during 1998.

A disclosure on ownership of shares and rights to shares of the Supervisory Board and the Board of Management has not been made. However, the committee's recommendation on renumeration of the Supervisory Board and the Board of Management has been met. See page 42.

We strongly believe that to permit holders of shares of a value greater than NLG 500,000 to place items on the agenda of the AGM is unrealistic in PolyGram's circumstances as these would represent shareholders owning less than some 0.003% of shares. However, we are happy to establish procedures to permit shareholders representing 1% of the issued share capital such a right.

A discussion of PolyGram's strategy and risks of the business and further details on control over financial risks are shown on pages 30 and 34 respectively. Page 51 contains details on PolyGram's employee share option plan, which virtually meets the recommendations of the Peters Committee. At our AGM on April 2, 1998, under the general item, Financial Statements and Annual Report 1997, we will give separate attention to the various recommendations of the Peters Committee proposed to be adopted by the Company. We support the introduction of a proxy solicitation system in The Netherlands.

February 11, 1998
The Board of Management

consolidated statements of income of the PolyGram Group

note	in millions of Netherlands Guilders, except per share data and share amounts	1997	1996
1	Net sales	11,095	9,488
2	Direct cost of sales	(5,772)	(4,917)
	Gross income	5,323	4,571
2	Selling expenses	(3,011)	(2,565)
2	General and administrative expenses	(1,114)	(928)
3	Income from operations	1,198	1,078
4	Financial expenses	(18)	(8)
	Income before tax	1,180	1,070
5	Income tax	(355)	(310)
	Income after tax	825	760
	Equity in net loss of non-consolidated companies	(15)	(24)
	Group income	810	736
	Third party interests	(23)	(14)
	Net income before extraordinary result	787	722
6	Extraordinary result after tax	–	(114)
	Net income after extraordinary result	787	608
	Average number of shares (par value NLG 0.50) outstanding during the year	180,000,000	180,000,000
	Net income per share before extraordinary result	NLG 4.37	NLG 4.01
	Net income per share after extraordinary result	NLG 4.37	NLG 3.38
	Proposed dividend per share	NLG 1.00	NLG 0.95

consolidated balance sheets of the PolyGram Group

after proposed distribution of income,
in millions of Netherlands Guilders

note	Assets		1997		as at December 31 1996
	Fixed assets				
7	Intangible fixed assets	3,036		2,593	
8	Tangible fixed assets	819		801	
9	Non-consolidated companies	298		288	
	Other non-current financial assets	106		110	
	Total fixed assets		4,259		3,792
	Current assets				
10	Inventories	1,455		1,216	
11	Receivables and prepaid expenses	4,904		3,987	
	Cash	694		414	
	Total current assets		7,053		5,617
12	**Total**		11,312		9,409

Group equity and liabilities

note					
	Group equity				
13	Shareholders' equity	4,143		3,302	
14	Other group equity	79		216	
	Total group equity		4,222		3,518
15	**Long-term provisions**		1,117		904
16	**Long-term liabilities**		260		285
15	**Short-term provisions**		502		606
17	**Current liabilities**		5,211		4,096
	Total		11,312		9,409

consolidated statements of cash flow of the PolyGram Group

In millions of Netherlands Guilders		1997		1996
Cash flow from operating activities				
Net income after extraordinary result		787		608
Adjustments to reconcile net income to gross cash provided by operating activities				
Depreciation on film inventory	644		528	
Depreciation and amortisation on tangible and intangible fixed assets	206		175	
Provision for losses on receivables and prepaid expenses	319		257	
Equity in income/loss of non-consolidated companies (net of dividends)	35		44	
Third party interests	23		14	
		1,227		1,018
Gross cash provided by operating activities		2,014		1,626
Change in assets and liabilities, net of effects from acquisitions				
Receivables and prepaid expenses	(881)		(528)	
Long-term receivables	11		37	
Film inventories	(752)		(769)	
Other inventories	23		25	
Accounts payable	16		(70)	
Other current and accrued liabilities	365		293	
Provisions	15		123	
Other assets and liabilities	2		2	
Total adjustments		(1,201)		(887)
Net cash provided by operating activities		813		739
Cash flow used in investing activities				
Payments for acquisitions, net of cash acquired	(97)		(113)	
Net payments for tangible and intangible fixed assets	(157)		(254)	
Net payments for non-consolidated companies	(48)		(113)	
Net cash used in investing activities		(302)		(480)
Cash flow from financing activities				
Payables to banks	90		(75)	
Long-term debts (including to Philips)	(5)		1	
Payments to third party interests	(31)		(16)	
Redemption of subordinated notes	(76)		(98)	
Transactions in PolyGram N.V. shares	(38)		(104)	
Dividend paid	(170)		(171)	
Net cash provided by (used for) financing activities		(230)		(463)
Net increase (decrease) in cash		281		(204)
Translation differences		(1)		11
Cash as at January 1		414		607
Cash as at December 31		694		414
Interest paid		84		57
Income tax paid		260		248

notes to the consolidated financial statements of the PolyGram Group

Consolidated financial statements of the PolyGram Group

The consolidated financial statements of the PolyGram Group include the accounts of PolyGram N.V. and its subsidiaries (the "PolyGram Group").

Presentation

All amounts are expressed in millions of Netherlands Guilders (NLG) unless otherwise stated. Unless specifically mentioned otherwise, all items in the financial statements are valued at face value. The comparable figures are reclassified to conform to currently adopted presentation methods where necessary.

The financial data of PolyGram N.V. are included in the consolidated financial statements of the Group. Therefore, in accordance with Article 402, Book 2 of the Dutch Civil Code, the non-consolidated statements of income of PolyGram N.V. report only the net income from participations and other income after tax.

Related party transactions

Effective January 1, 1996, PolyGram acquired the CD factory in Blackburn, UK from Philips for a consideration of NLG 5 million.

Accounting policies

Policies of consolidation

The consolidated financial statements include all of the subsidiaries in which a controlling interest is held by PolyGram N.V., or through any of its subsidiaries directly or indirectly. These companies are included in full in the consolidation; the aggregate of interests of third parties are disclosed separately.

Policies followed in valuation and income recognition

HISTORIC COST CONVENTION

The valuation as well as the depreciation, amortisation and/or consumption of fixed assets and inventories, is based on the historic cost convention.

FOREIGN CURRENCIES

All foreign currency amounts in the balance sheets have been translated into NLG at the official exchange rates at the respective balance sheet dates. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of income. Exchange differences due to the translation into NLG of investments in foreign subsidiaries, including financing considered a hedge towards those investments, have been accounted for as translation differences in shareholders' equity.

In the case of entities in highly inflationary economies (hyperinflation countries) the valuation of assets and also depreciation, amortisation and/or consumption is recorded in a functional currency, generally the US Dollar.

In the consolidated statements of income, amounts in foreign currencies have been translated into NLG based upon the applicable rates of exchange for the periods involved.

Balance sheets

INTANGIBLE FIXED ASSETS

Catalogues of recorded music, music publishing, film and theatrical rights are considered intangible assets if they are purchased as part of a major acquisition and are valued based upon the actual amounts paid to third parties upon acquisition or the present value of expected income, whichever is lower. They are amortised if, and to the extent that, the present value of the expected income generated by the acquired catalogues falls below their book value.

Amounts paid in excess of the net asset value for acquisitions (goodwill) made after January 1, 1993 are capitalised and systematically amortised over the economic life of the business acquired, a period not exceeding 40 years. Prior to 1993, goodwill was charged directly to shareholders' equity.

TANGIBLE FIXED ASSETS

Tangible fixed assets are valued at their acquisition cost less depreciation. Depreciation is calculated on a straight-line basis taking into account the assets' economic lives.

NON-CONSOLIDATED COMPANIES

Investments in non-consolidated companies in which a significant influence is exercised over the business and financial policies are valued at their net asset value. The valuation of assets, liabilities and equity and the recognition of income of these non-consolidated companies reflects, in all material aspects, the accounting policies governing these consolidated financial statements. Non-consolidated companies in which no significant influence is exercised are valued at the lower of cost and net realisable value. In general, a significant influence is considered to exist if more than 20% of the voting rights are held.

OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets are valued at the lower of cost and net realisable value.

INVENTORIES

Recording costs are valued at cost less depreciation, which is based on the average economic life.

Films are valued at the lower of cost and net realisable value. The cost of a film includes the direct costs of production, an allocation of studio production overhead, interest capitalised during the production period and print and advertising expenditure, including pre-release costs. The cost of each individual film is amortised in the proportion that revenues earned in the accounting period bear to the estimated total revenues. Estimates of expected total revenues are reviewed periodically and amortisation is adjusted accordingly.

When PolyGram acts as distributor, income is recognised as the films are exhibited. Revenues from licensing agreements are recognised when the product is first available for release provided certain conditions of sale have been met.

Other inventories are valued at purchase price or cost of manufacture, based on the first-in first-out method, reduced by a provision for the risk of obsolescence. Cost of manufacture includes direct costs and an appropriate proportion of overhead, taking into account the stage of completion. Income derived from intercompany transfers of goods and materials is eliminated.

RECEIVABLES AND PREPAID EXPENSES

Trade accounts and other receivables are valued at face value less an allowance for the risk of doubtful accounts.

Advances to artists and repertoire owners are appraised individually and the recoverability of the unrecouped portion is determined by the prospects of future recoupment taking into account current popularity and recent sales.

notes to the consolidated financial statements of the PolyGram Group continued

Included in receivables are net deferred tax assets recognised for temporary differences between the financial and tax bases of assets and liabilities that result in tax deductible amounts in future years, and deferred tax assets recognised for tax loss carry-forwards and tax credits. A valuation allowance is recognised if, based on the weight of the available evidence, it is more likely than not that all or some of the deferred tax assets cannot fully be realised.

OTHER GROUP EQUITY

Other group equity represents third party interests in the total equity of consolidated companies which are shown at net asset value, calculated in accordance with the accounting policies governing these consolidated financial statements.

LIABILITIES

Provisions are not associated with specific assets, but are created to cover certain business obligations and risks. Provisions are stated at face value, with the exception of provisions for employee pension obligations and severance payments, and provisions for earn-outs, which are stated at the present value of the future obligations.

The provisions for pension obligations are based mainly on actuarial calculations and relate to those obligations that are not funded by separate pension funds or by third parties. The total pension coverage provided by these provisions together with the various separate pension funds is equal to at least the present value of existing pension obligations based upon the number of prior years of employment with PolyGram.

Included in provisions are net deferred tax liabilities recognised for temporary differences between the financial and tax bases of assets and liabilities that result in taxable amounts in future years.

Statements of income

Net sales represent the revenues derived from products delivered to, and services performed for, third parties, net of returns.

The recognition of other income and expenses is closely related to the valuation principles for assets and liabilities.

Equity in the net income of non-consolidated companies in which a significant influence is exercised has been recognised, in all material aspects, in accordance with the accounting policies governing these consolidated financial statements. Where no significant influence is exercised in a non-consolidated company, dividends received are recognised as income.

Extraordinary results are income and costs not resulting from the ordinary operations of the Group, which are incidental in nature and have in aggregate a material impact on the PolyGram organisation and results for the year.

Statements of cash flow

The consolidated statements of cash flow have been drawn up by the indirect method. For a number of reasons, mainly the effects of translation differences and acquisitions during the year, certain items in the statements of cash flow do not correspond to the differences between the balance sheet amounts for corresponding items. Cash flows in foreign currencies have been translated into NLG based upon the applicable rates of exchange for the periods involved.

Payments for acquisitions, net of cash acquired, include amounts paid during the year for prior year acquisitions.

notes to the consolidated financial statements of the PolyGram Group continued

Net sales by geographical area

note 1

Net sales by geographical area	1997	% of total	1996	% of total
Europe	5,635	51	4,919	52
North America	2,761	25	2,202	23
Asia	1,742	16	1,563	16
Rest of the World	957	8	804	9
Total	11,095	100	9,488	100

Net sales by business segment

Net sales by business segment	1997	% of total	1996	% of total
Music	9,304	84	7,947	84
Filmed Entertainment	1,791	16	1,541	16
Total	11,095	100	9,488	100

Cost of sales

note 2

Cost of sales	1997	1996
Direct cost of sales	5,772	4,917
Selling expenses	3,011	2,565
General and administrative expenses	1,114	928
Total	9,897	8,410

Salaries and wages

Included in cost of sales are salaries and wages amounting to NLG 1,271 million (1996: NLG 1,062 million). The costs for related social security and similar benefits totalled NLG 276 million (1996: NLG 238 million). Included in the costs for social security are the costs for pension plans totalling NLG 44 million (1996: NLG 40 million). In 1997 remuneration of members of the Board of Management paid by the Group totalled NLG 21.9 million (1996: NLG 19.8 million), and for the Supervisory Board NLG 0.2 million (1996: NLG 0.2 million).

Employees by geographical area

Employees by geographical area	1997	Average number of employees 1996
Europe	6,935	7,044
North America	3,465	3,490
Asia	1,635	1,251
Rest of the World	823	764
Total	12,858	12,549

note 3

Income from operations by geographical area

	1997	1996
Europe	798	644
North America	(21)	71
Asia	249	246
Rest of the World	172	117
Total	1,198	1,078

Income (loss) from operations by business segment

	1997	1996
Music	1,307	1,113
Filmed Entertainment	(109)	(35)
Total	1,198	1,078

note 4

Financial income (expense)

	1997	1996
Interest expense	(66)	(42)
Interest income	38	31
Exchange gains and losses	16	10
Other financial expenses	(6)	(7)
Total	(18)	(8)

note 5

Income tax

Total income tax amounted to NLG 355 million (1996: NLG 264 million) resulting in an effective tax rate of 30% (1996: 29%). Income tax was reduced by NLG 29 million (1996: NLG 21 million) due to the utilisation of tax losses carried forward and tax credits. At December 31, 1997 accumulated tax losses carried forward and tax credits were approximately NLG 1,091 million (1996: NLG 856 million) of which approximately NLG 102 million (1996: NLG 127 million) will expire within 5 years.

Withholding tax relating to the income of subsidiaries to be distributed as dividends in the near future is generally charged to income in the year in which the income is generated.

PolyGram's operations are subject to income tax with different statutory tax rates in various jurisdictions. The weighted average statutory tax rate reflected in the following table is computed by applying the applicable statutory tax rates to PolyGram's earnings in each country.

Reconciliation of income tax rate	1997 (%)	1996 (%)
Weighted average percentage, based on statutory tax rates	38	38
Tax effect of tax losses carried forward and tax credits utilised	(2)	(2)
Tax effect of current losses not recognised	2	–
Tax effect of changes in the valuation allowances for deferred tax assets	–	(2)
Tax effect of exempt income and non-deductible expenses	(5)	(6)
Other tax effects	(3)	1
Effective tax rate	30	29

Income tax (continued)

The net deferred tax assets or liabilities are determined per fiscal entity. Offsetting deferred tax assets and deferred tax liabilities within the same fiscal entity is restricted to deferred tax assets and liabilities which reverse in the same period.

Current and non-current deferred tax assets, net of valuation allowances, are included in receivables in the event and to the extent that, per fiscal entity, total deferred tax assets exceed total deferred tax liabilities. Conversely, current and non-current deferred tax liabilities are included under provisions in the event and to the extent that, per fiscal entity, total deferred tax liabilities exceed total deferred tax assets.

Analysis of income tax positions	1997	1996
Balances as at January 1	(440)	(448)
Income tax accrued	(355)	(310)
Income tax on extraordinary result	–	46
Income tax paid	260	248
Other changes (including translation differences)	(48)	24
Balances as at December 31	(583)	(440)
These amounts are included in the following accounts:		
Deferred tax assets (net of valuation allowances of NLG 221 million; 1996: NLG 261 million)	381	279
Deferred tax liabilities	(875)	(659)
Income tax payable, net	(89)	(60)

Extraordinary result after tax

note 6

	1997	1996
Reorganisation costs	–	160
Tax thereon	–	(46)
Extraordinary result after tax	–	114

Intangible fixed assets

note 7

	Total	Goodwill	Catalogues of Recorded Music	Music Publishing Rights	Catalogue of Film Rights
Gross value as at January 1, 1997	2,707	806	1,367	404	130
Accumulated amortisation	(114)	(114)	–	–	–
Book value as at January 1, 1997	2,593	692	1,367	404	130
Investments	204	100	86	18	–
Amortisation	(63)	(63)	–	–	–
Translation differences	302	70	186	24	22
Book value as at December 31, 1997	3,036	799	1,639	446	152
Gross value as at December 31, 1997	3,229	992	1,639	446	152
Accumulated amortisation	(193)	(193)	–	–	–

notes to the consolidated financial statements of the PolyGram Group continued

note 8

Tangible fixed assets	Total	Land and buildings	Machinery and equipment	Other depreciable assets	Assets under construction
Gross value as at January 1, 1997	1,439	563	512	329	35
Accumulated depreciation	(638)	(140)	(303)	(195)	–
Book value as at January 1, 1997	801	423	209	134	35
Investments	148	27	52	51	18
New and deconsolidations	(26)	(17)	(9)	1	(1)
Depreciation	(143)	(19)	(68)	(56)	–
Sales	(13)	(4)	(5)	(4)	–
Other	52	13	24	11	4
Book value as at December 31, 1997	819	423	203	137	56
Gross value as at December 31, 1997	1,574	579	558	381	56
Accumulated depreciation	(755)	(156)	(355)	(244)	–

As at December 31, 1997, the book value of tangible fixed assets acquired under financial lease arrangements amounts to NLG 20 million (1996: NLG 39 million).

note 9

Non-consolidated companies	Total	Investments	Loans
Balances as at January 1, 1997	288	238	50
Net investments and additions	18	(7)	25
Equity in net income (loss)	(15)	(15)	–
Dividends	(20)	(20)	–
Other	27	20	7
Balances as at December 31, 1997	298	216	82

As at December 31, 1997 investments in non-consolidated companies include catalogues of theatrical, publishing and recorded music rights valued at NLG 159 million (1996: NLG 141 million).

note 10

Inventories	1997	1996
Films, net of amortisation	963	739
Finished goods	238	215
Recording costs	197	209
Raw materials	57	53
Total	1,455	1,216

During 1997, interest capitalised in films amounted to NLG 24 million (1996: NLG 9 million).

notes to the consolidated financial statements of the PolyGram Group continued

note 11

Receivables and prepaid expenses	1997	1996
Trade accounts	2,865	2,278
Advances and loans to artists and repertoire owners	1,028	871
Prepaid expenses and accrued income	378	303
Net deferred tax assets	381	279
Non-consolidated companies	28	7
Philips	1	5
Other receivables	223	244
Total	4,904	3,987

The receivables from non-consolidated companies are mainly trade debts. In accordance with industry practice, advances and loans to artists and repertoire owners with an estimated life in excess of one year (NLG 431 million; 1996: NLG 340 million) have been included in the above. Of the net deferred tax assets, approximately NLG 156 million (1996: NLG 210 million) is expected to be realised within one year.

note 12

Total assets by geographical area	1997	1996
Europe	5,135	4,699
North America	4,471	3,456
Asia	1,135	802
Rest of the World	571	452
Total	11,312	9,409

Total assets by business segment	1997	1996
Music	9,314	7,778
Filmed Entertainment	1,998	1,631
Total	11,312	9,409

note 13

Shareholders' equity	1997
Balance as at January 1, 1997	3,302
Net income	787
Proposed dividend	(180)
Goodwill	2
Transactions in PolyGram N.V. shares, on balance	(38)
Translation differences	270
Balance as at December 31, 1997	4,143

Adjustments to goodwill arising from acquisitions prior to January 1, 1993 are accounted for directly in shareholders' equity.

note 14

Other group equity

	1997
Balance as at January 1, 1997	216
New consolidations/deconsolidations	33
Share in group income	23
Payments to third party interests	(31)
Subordinated notes to be redeemed	(163)
Other movements	6
Translation differences	(5)
Balance as at December 31, 1997	79

Included in other group equity at January 1, 1997 were US$97 million of subordinated notes ("the notes") issued by PolyGram Finance B.V., a group company of PolyGram N.V. The notes were mandatorily exchangeable into non-voting redeemable preference shares of PolyGram Luxembourg Finance S.A. The notes and the preference shares were only redeemable at the option of PolyGram and carried a financing rate in 1997 of 10.3%. Financing charges amounting to NLG 19 million and tax benefits thereon of NLG 7 million (1996: NLG 24 and 8 million respectively) are recorded under third party interests in the consolidated statements of income. In December 1997 the Company decided to redeem the remaining US$97 million notes in January 1998.

note 15

Provisions

	1997 Long-term	1997 Short-term	1996 Long-term	1996 Short-term
Pensions	244	8	246	8
Net deferred tax liabilities	815	60	582	77
Returns	–	240	–	209
Reorganisation costs	–	27	–	120
Other obligations and risks	58	167	76	192
Total	1,117	502	904	606

PolyGram has several pension plans covering its employees. Employee pension plans have been established in many countries in accordance with the legal requirements, customs and the local situation in the countries involved. The pension obligations have, in most cases, been transferred to separate pension funds or to third parties, which limit any further obligations of the PolyGram Group to the beneficiaries.

The provision for pensions covers the pension plan for PolyGram employees in Germany for NLG 231 million (1996: NLG 229 million). The remaining amount (1997: NLG 21 million; 1996: NLG 25 million) relates to pension plans in other countries. The provision is calculated by using an average discount rate of 6.0% (1996: 6.0%).

The provision for returns covers the cost of expected returns of goods sold. Expected returns are estimated on the basis of past experience as well as current sales.

Long-term liabilities

note 16

Long-term liabilities	1997	1996
Bank loans	162	160
Financial leases	45	59
Philips	1	2
Other long-term debts	52	64
Total	260	285

The average interest percentage of long-term liabilities at December 31, 1997 is 6.35% (1996: 6.6%). Long-term debts at December 31, 1997 with a lifetime in excess of five years are NLG 34 million (1996: NLG 49 million). Long-term bank loans have generally been guaranteed by PolyGram N.V.

Current liabilities

note 17

Current liabilities	1997	1996
Accrued licence fees payable	1,852	1,581
Accounts payable to trade creditors	1,031	784
Accrued film costs	380	250
Proposed dividend	180	171
Bank loans	194	86
Income tax payable	101	82
Subordinated notes to be redeemed	163	78
Philips	44	33
Accounts payable to non-consolidated companies	8	10
Other accrued expenses	868	726
Other debts payable	390	295
Total	5,211	4,096

PolyGram has a committed US$500 million, or its equivalent in other currencies, multi-currency revolving credit facility agreement with a syndicate of banks expiring in December 2001. Draw downs are guaranteed by PolyGram N.V. Included in the amount is a swingline facility of US$100 million which would allow the facility to be used to support a US commercial paper programme if required in the future. The minimum draw down under the facility is US$10 million. As at December 31, 1997 no amount has been drawn down under this facility (1996: nil).

In December 1996, PolyGram Filmed Entertainment Distribution Inc. (PFED) entered into a committed US$300 million lease agreement with a syndicate of banks. Under this agreement, the banks will purchase completed films from PFED and lease them back for a period of three years. PolyGram has the option to regain ownership of each film at the end of the lease. During the first two years, the portion of the facility not used for film leasing may be used for funding film productions. The agreement terminates in December 2001. At December 31, 1997, US$192 million of the lease has been used (1996: US$26 million). PolyGram N.V. guarantees the lease payments.

PolyGram has a NLG 250 million Dutch commercial paper programme in place to provide both an alternative and an additional source of funds to existing uncommitted credit lines. As at December 31, 1997, no amount has been drawn down under this facility (1996: nil).

notes to the consolidated financial statements of the PolyGram Group continued

In May 1997 the European Investment Bank provided a GBP50 million multi-currency term loan facility to PolyGram for the financing of European films in a two year period. Amounts drawn under the facility have a maturity of 4 years. As at December 31, 1997 no amount has been drawn down under this facility. The agreement provides for an additional loan of GBP50 million once the first loan has been fully utilised.

The PolyGram Group has several other uncommitted credit lines with banks in a number of countries. The unused portion of these credit lines was NLG 1,783 million at December 31, 1997 (1996: NLG 1,686 million).

note 18

Commitments and contingencies

Leases

The company leases films, facilities and equipment in the normal course of business. Expenses under these operating leases were NLG 265 million in 1997 (1996: NLG 157 million).

Future minimum rental commitments relating to operational leases at December 31, 1997, amount to:

Years ending December 31,	1998	136
	1999	227
	2000	120
	2001	61
	2002	51
	thereafter	340
Total		935

Guarantees	1997	1996
Guarantees on behalf of non-consolidated companies and third parties	33	23
Guarantees to artists and repertoire owners	791	596

NLG 335 million (1996: NLG 252 million) of the guarantees to artists and repertoire owners is estimated to become payable within one year.

Legal proceedings

PolyGram has extensive international operations, and is subject to a number of legal proceedings incidental to these operations. PolyGram does not expect that the outcome of currently pending proceedings will, either individually or in the aggregate, have a material adverse effect upon the financial condition, results from operations or cash flow of the PolyGram Group.

Other

In recent years PolyGram has acquired several companies with (minority) interests still held by the vendors. Options have been granted to some vendors which may require PolyGram to acquire the outstanding shares of such companies at a fair market value based on certain conditions.

Financial instruments and risk management

The Group enters into forward foreign exchange contracts, option contracts and foreign currency swaps with well established commercial banks to hedge currency exposures as a result of transactions denominated in foreign currencies that arise in the normal course of business and as a result of acquisitions of companies. Occasionally, interest rate swaps are entered into to convert floating interest rates to fixed interest rates or vice versa. PolyGram does not enter into speculative positions. Therefore the timing of recognising related gains and losses is matched with the underlying positions being hedged.

Subsequent events

In January 1998 PolyGram acquired a library of film catalogues from Consortium de Realisation SAS (CDR) for a consideration of US$225 million. From the purchase price a substantial amount will be identified as a catalogue of film rights, the remainder being allocated to various other assets and liabilities acquired, including goodwill.

financial statements of PolyGram N.V.

Non-consolidated Balance Sheets of PolyGram N.V.
after proposed distribution of income, in millions of Netherlands Guilders

note	Assets	as at December 31 1997	1996
	Non-current financial assets		
A	Participations	3,539	2,707
	Current assets		
	Receivables from participations	784	766
	Total	4,323	3,473

note	Shareholders' equity and liabilities	1997	1996
	Shareholders' equity		
B	Share capital, issued and paid	90	90
C	Reserves	4,053	3,212
	Total shareholders' equity	4,143	3,302
	Proposed dividend	180	171
	Total	4,323	3,473

Non-consolidated Statements of Income of PolyGram N.V. in millions of Netherlands Guilders	1997	1996
Net income from participations	770	593
Other income after tax	17	15
Net income	787	608

notes to the financial statements of PolyGram N.V.

All amounts are expressed in millions of Netherlands Guilders, unless otherwise stated.
For the accounting policies with regard to valuation and income recognition see pages 39 to 41 of the consolidated financial statements of the PolyGram Group, which form part of these notes.

note A

Participations

Participations are valued at their net asset value in accordance with the aforementioned accounting policies.

A list of participations, drawn up in accordance with the relevant legal requirements, is available at the Trade Register office in Amersfoort, The Netherlands.

	1997
Balance as at January 1, 1997	2,707
Equity in net income	770
Goodwill	2
Dividend paid	(184)
Transactions in PolyGram N.V. shares, on balance	(26)
Translation differences	270
Balance as at December 31, 1997	3,539

With regard to the financial statements of the majority of the Dutch private limited liability companies included in the consolidated financial statements, the exemption is applied as referred to in Article 403, Section 1, Book 2 of the Dutch Civil Code.

note B

Share capital, issued and paid

At December 31, 1997 the share capital, issued and paid, amounted to NLG 90 million and consisted of 180 million shares with a par value of NLG 0.50 per share. Of the shares, 75% are held by Philips.

The Company has an executive share option plan for senior management worldwide. Awards of options under this plan to employees are discretionary and related to the degree of success of individuals concerned in enhancing the value of the Group. The movements in the number of share options outstanding can be summarised as follows:

	1997	1996
Outstanding as at January 1	3,268,501	3,005,117
Granted	1,223,333	857,934
Lapsed	(49,500)	(7,700)
Exercised	(813,352)	(586,850)
Outstanding as at December 31	3,628,982	3,268,501

The outstanding options at December 31, 1997 for 3,628,982 PolyGram N.V. shares have been granted at a weighted average subscription price of NLG 81.43 (ranging from NLG 44.05 to NLG 111.85) and unless previously exercised will expire at various dates between March 23, 1998 and February 10, 2007.

If the outstanding share options as at December 31, 1997 were exercised, this would result in an earnings dilution of NLG 0.02 per share (1996: no dilution).

Reserves	Total	Share premium	Other reserves
Balances as at January 1, 1997	3,212	1,095	2,117
Net income	787	–	787
Proposed dividend	(180)	–	(180)
Goodwill	2	–	2
Transactions in PolyGram N.V. shares, on balance	(38)	–	(38)
Translation differences	270	–	270
Balances as at December 31, 1997	4,053	1,095	2,958

note C

Mainly in connection with the executive share option plan, PolyGram acquired 954,768 shares in 1997 with a nominal value of NLG 0.50 each for an average price of NLG 107.08, and sold 819,882 shares with a nominal value of NLG 0.50 each for an average price of NLG 93.43.

At December 31, 1997 the Group held 1,368,016 PolyGram N.V. shares, the value of which is deducted from other reserves (NLG 135 million).

Baarn, February 11, 1998

The Board of Management
A. Lévy, President
J. Cook, Executive Vice President
Dr. W. Hix
M.A. Kuhn
R.A.E. Stuyt

The Supervisory Board
C. Boonstra, Chairman
L.P.H. Das
D.G. Fine
P.G. Gyllenhammar

other information regarding PolyGram N.V.

Auditor's report

Introduction

We have audited the 1997 financial statements of PolyGram N.V., Baarn, as included on pages 36 to 52 inclusive. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and the results of its operations for the year then ended in accordance with accounting principles generally accepted in The Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Dutch Civil Code.

Amsterdam, February 11, 1998
KPMG Accountants N.V.

Distribution of income according to the articles of association of PolyGram N.V.

Upon proposal of the Board of Management, which proposal must be approved by the Supervisory Board, the General Meeting of Shareholders of PolyGram N.V. may decide to make distributions in cash or in shares of PolyGram N.V. payable out of distributable income, other reserves and/or share premium account, as shown in the financial statements.

Proposed distribution of income

In view of the stipulation of Article 35 of the Articles of Association, it has been proposed that a dividend of NLG 180 million (NLG 1.00 per share) be paid and the remaining amount of net income of NLG 607 million be added to other reserves.

application of generally accepted accounting principles in the USA

The accounting policies followed in the preparation of the consolidated financial statements differ in certain significant respects from those generally accepted in the United States of America (US GAAP).

Those differences which have a material effect on net income and/or shareholders' equity are as follows:

a Goodwill arising from a difference between the purchase price including contingent consideration and net asset value of newly acquired companies and participations was accounted for directly in shareholders' equity up to January 1, 1993. Thereafter goodwill is capitalised and amortised over a period not exceeding 40 years. For US GAAP purposes, all goodwill has been recorded as an asset and is being amortised over a period not exceeding 40 years. Under US GAAP, contingent consideration is not recognised at the date of acquisition, but instead is recognised as additional goodwill at the date the contingency is resolved and the additional consideration is payable.

b Intangible fixed assets other than goodwill are amortised if and to the extent that the present value of the expected income generated by each category of asset is less than the book value. For US GAAP purposes, catalogues of recorded music are amortised straight-line over 25 years, the catalogue of film rights straight-line over 20 years and the catalogues of music publishing and theatrical rights straight-line over 15 years.

c Effective January 1, 1996, PolyGram acquired a CD factory in Blackburn, UK from Philips and valued the assets and liabilities at fair value on the acquisition date. For US GAAP purposes the purchase would be recorded using Philips' historical cost, the difference in the purchase price being treated as a capital contribution.

application of generally accepted accounting principles in the USA continued

The calculation of net income after extraordinary result and shareholders' equity, substantially in accordance with US GAAP, is as follows:

	in millions of Netherlands Guilders	1997	1996
	Net income after extraordinary result as per consolidated statements of income of the PolyGram Group	787	608
	Adjustments to reported income:		
a	amortisation of goodwill	(31)	(28)
b	amortisation of intangible fixed assets other than goodwill	(114)	(96)
c	transactions with Philips	–	(7)
	other	(21)	(6)
	tax effects of US GAAP adjustments	56	36
	Approximate net income after extraordinary result in accordance with US GAAP	677	507
	Approximate net income after extraordinary result per share in accordance with US GAAP (in NLG) based on 180,000,000 shares outstanding	3.76	2.82

		as at December 31 1997	1996
	Shareholders' equity as per consolidated balance sheets of the PolyGram Group	4,143	3,302
	Adjustments to reported equity:		
a	goodwill	1,110	1,021
b	intangible fixed assets other than goodwill	(739)	(549)
	other	(28)	(14)
	tax effects of US GAAP adjustments	197	116
	Approximate shareholders' equity in accordance with US GAAP	4,683	3,876

PolyGram accounts for stock options in accordance with Dutch GAAP. By following Dutch GAAP, the accounting also conforms with a US accounting methodology prescribed by the Accounting Principles Board's Opinion No. 25 "Accounting for Stock Issued to Employees". Using a pricing model to determine compensation cost for PolyGram's stock option plan under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", PolyGram's net income after extraordinary result under US GAAP would have been reduced by NLG 0.09 per share (1996: NLG 0.05 per share). For an overview of options granted under the stock option plan see note B of the financial statements of PolyGram N.V.

report of the supervisory board of PolyGram N.V.

PolyGram N.V.'s financial statements for 1997 have been audited by KPMG Accountants N.V., independent public auditors. We ask you to adopt these statements in accordance with the recommendation of the Board of Management and to accept the proposal to declare a dividend of NLG 1.00 per share in respect of 1997.

As recorded in the pages of this Annual Report, 1997 saw PolyGram achieve solid growth, in spite of the difficult markets which prevailed for music companies. In addition, the Company made significant progress in building its valuable filmed entertainment business. The Supervisory Board wishes to acknowledge the contribution of PolyGram personnel worldwide, whose commitment and expertise continue to make these results possible.

Corporate Governance

The Supervisory Board recognises the importance of its role in establishing and monitoring proper corporate governance procedures throughout the PolyGram Group. We welcome the report of the Peters Committee and its aim to establish formal criteria by which Dutch companies can measure their corporate governance procedures. We recognise that many of the recommendations of the Peters Committee are self evident good practice and reflect many practices which have been in place in PolyGram for some years.

In line with the recommendations of the Peters Committee, we are happy to confirm that our past procedures are being formalised, for example, the drawing up of Rules of Procedures incorporating those governance matters referred to in the Committee's report. This will include the formal establishment of Audit, Remuneration and Nomination Committees consisting of all members of the Supervisory Board which will, in future, meet separately as such committees when appropriate, and at least once per year.

Your Board formally meets with Executive Management to discuss the Company's strategy and risks at least once per year and also in the absence of the Board of Management at least once per year.

We have requested that the Board of Management formally report to us on its assessment of internal controls during 1998.

The individual particulars of the Supervisory Board are shown on page 56 and the "profile" we aim for in the composition of the Supervisory Board is available at request from the Shareholder Information Department at the Company's registered office.

Baarn, February 11, 1998

The Supervisory Board

The Supervisory Board

Particulars of the Supervisory Board of PolyGram N.V.

CORNELIS BOONSTRA (DUTCH):
was appointed Chairman of the Supervisory Board on April 2, 1997, having been a member since April 23, 1996. His current term of appointment ends in 2000. He has been President and Chairman of the Board of Management of Philips Electronics N.V. since October 1, 1996. Age 60.

LOURENS P H DAS (DUTCH):
was appointed a member of the Supervisory Board in 1984. His current term of appointment ends in 2000. He has been with the Philips Group in various positions for 29 years and was Group Director of Corporate Office Mergers & Acquisitions, Philips International B.V. until his retirement in 1996. Age 61.

DAVID G FINE (BRITISH):
was appointed as a member and Chairman of the Supervisory Board on January 1, 1991, retiring as Chairman on April 2, 1997. His current term of appointment ends in 1999. He has been in the music industry for 47 years and joined PolyGram in 1979 as Chief Executive Officer of PolyGram's UK operations. In 1983, he was appointed Executive Vice President of PolyGram and in 1987 as President and Chief Executive Officer of PolyGram and a member of the Board of Management from which he retired on December 31, 1990. He is presently Chairman of the International Federation of the Phonographic Industry (IFPI). Age 68.

PEHR G GYLLENHAMMAR (SWEDISH):
was appointed a member of the Supervisory Board on April 2, 1997. His current term of appointment ends in 2001. He is a Deputy Chairman of the Board of Directors of FMC Corporation and United Technologies Corporation. In addition, he is Senior Advisor to Lazard Frères & Co LLC, and a Trustee of the Reuters Founder Share Company Limited and Chairman Designate of Commercial Union. Age 62.

summary of financial statements of the PolyGram Group in US Dollars*

in millions of US Dollars, except per share amounts	1997
Income statement data	
Net sales	5,492
Direct cost of sales	(2,857)
Gross income	2,635
Selling, general and administrative expenses	(2,042)
Income from operations	593
Financial expense	(9)
Income before tax	584
Income tax	(176)
Income after tax	408
Equity in net loss of non-consolidated companies and third party interests	(18)
Net income	390
Net income per share	2.16
Balance sheet data (at period end)	
Total fixed assets	2,108
Total current assets	3,492
Total	5,600
Shareholders' equity	2,051
Other group equity	39
Total group equity	2,090
Long-term provisions	553
Long-term liabilities	129
Short-term provisions	249
Current liabilities	2,579
Total	5,600
Shareholders' equity per share	11.39

*Merely for the convenience of the reader, Netherlands Guilder amounts have been converted to US Dollars at a rate of US$ 1 = NLG 2.02, being the rate which was applied for the conversion of US Dollar amounts in the consolidated balance sheet as per December 31, 1997.

PolyGram management

Executive management

Alain Lévy
President and Chief Executive Officer
Jan Cook
Executive Vice President and Chief Financial Officer
Michael Kuhn
Executive Vice President, and President, PolyGram Filmed Entertainment
Roger Ames
Executive Vice President and President, PolyGram Music Group
Clarence Avant
Chairman, Motown Records
Norman Cheng
President, Far East
Rick Dobbis
President, Continental Europe

Regional management

Alain Lévy
President and Chief Executive Officer, USA and Canada
Norman Cheng
President, Far East
Manolo Diaz
President, Latin America
Rick Dobbis
President, Continental Europe

Divisional management

Jan Cook
Chief Executive Officer, PolyGram Manufacturing and Distribution Centres
Michael Kuhn
President, PolyGram Filmed Entertainment
Roger Ames
President, PolyGram Music Group
David Hockman
Chief Executive Officer, PolyGram Music Publishing
John Nelligan
President, PolyGram Direct Marketing and Chairman, Britannia Music Co.
Chris Roberts
President, PolyGram Classics & Jazz

Corporate officers

Jan Bolger
Vice President, Treasury
Richard Constant
General Counsel
Philippe Kern
Director of Public and Legal Affairs
Pieter-Paul Kessler
Company Secretary
Geoff Lawlan
Senior Vice President, Tax
Jonathan Manley
Senior Vice President, IT
Peter Matthews
Senior Vice President, F&A Regional Operations
Marc Meyer
Senior Vice President, Strategic Planning and Business Development
Fiona Murray
Vice President, Investor Relations
Jos de Raaij
Corporate Controller
Chris Simpson
Director of Operational Audit
Jonathan Smilansky
Senior Vice President, Human Resources

Operational management

Clarence Avant
Chairman, Motown Records
Peter Bouwens
Senior Vice President, International Manufacturing and Logistics
Al Cafaro
Chairman and Chief Executive Officer, A&M Records, USA
Marcelo Castello Branco
Managing Director, Brazil
Douglas Chan
Chairman, Hong Kong
Paul Dixon
President, Australia
Andy Fogelson
President, PolyGram Filmed Entertainment Distribution
Danny Goldberg
Chairman, Mercury Group, USA
Wolf-D Gramatke
President and Chief Executive Officer, PolyGram GmbH, Germany
Keiichi Ishizaka
President, Japan
George Jackson
President and Chief Executive Officer, Motown Records
John Kennedy
Chairman and Chief Executive Officer, PolyGram UK
Roger Lewis
President, Decca International, UK
Chuck Mitchell
President, Verve Records, USA
David Munns
Senior Vice President, Pop Marketing
John Nelligan
President, PolyGram Direct Marketing and Chairman, Britannia Music Co.
Costa Pilavachi
President, Philips Music Group, The Netherlands
Alain Rebillard
President and Chief Executive Officer, France
Theo Roos
President and Chief Executive Officer, The Netherlands
Bob Sanitsky
President and Chief Executive Officer, PolyGram Television
Stefano Senardi
President, Italy
Russell Simmons
Chairman and Chief Executive Officer, Def Jam
Bill Sondheim
President, PolyGram Video
Joe Summers
Chairman, Canada
Stewart Till
President, International Division, PolyGram Filmed Entertainment
Karsten Witt
President, Deutsche Grammophon GmbH, Germany

Board of management, PolyGram N.V.

Alain Lévy, President
Jan Cook, Executive Vice President
Dr. Wolfgang Hix
Michael Kuhn
Robert A. E. Stuyt

Supervisory board, PolyGram N.V.

Cornelis Boonstra, Chairman
Lourens P.H. Das
David G. Fine
Pehr G. Gyllenhammar

Responsibility for the management of PolyGram is with the Board of Management; it is accountable to the Supervisory Board and the shareholders.

PolyGram worldwide 1997

PolyGram Worldwide includes the following companies:

The Netherlands

PolyGram N.V.
PolyGram International Holding B.V.
PolyGram International Music B.V.
PolyGram Nederland B.V.
Mercury Records B.V.
Polydor B.V.
Wisseloord Studio's B.V.
PolyGram Film Productions B.V.
Philips Music Group
PolyGram Filmed Entertainment B.V.

Europe excluding The Netherlands

Austria
PolyGram Ges.m.b.H.
Belgium
N.V. PolyGram S.A.
Czech Republic
PolyGram S.r.o.
Denmark
PolyGram Records A/S
Finland
PolyGram Finland Oy
France
PolyGram S.A.
PolyGram Manufacturing & Distribution Centres S.A.
Island Entertainment Group S.A.
PolyGram Music S.A.
D.I.A.L. – Diffusion Internationale d'Arts et Loisirs S.A.
PolyGram Audiovisuel S.A.
Germany
PolyGram Holding GmbH
PolyGram GmbH
Deutsche Grammophon GmbH
Mercury Records GmbH
Polydor GmbH
PolyGram Songs Musikverlag GmbH
Karussell Musik & Video GmbH
PolyGram Manufacturing & Distribution Centres GmbH
PolyGram Filmproduktion GmbH
Motor Music GmbH
PolyGram Filmed Entertainment GmbH
Greece
PolyGram Records S.A.
Hungary
PolyGram Records Hungary Ltd. 51%
Ireland
PolyGram Ireland Limited
Italy
PolyGram Italia S.r.L.
Luxembourg
PolyGram S.A.
PolyGram Luxembourg Finance S.A.
Norway
PolyGram A/S
Poland
PolyGram Polska Ltd.
Portugal
PolyGram Portugal S.A.
Russia
PolyGram A/O 51%
Slovakia
PolyGram Slovensko S.r.o.
Spain
PolyGram Iberica S.A.
Sogepaq Distribucion S.A. 50%
Sweden
PolyGram AB
Sweden Music Förlags AB
Stockholm Label Group AB
Switzerland
PolyGram (Switzerland) AG
Monopole Pathé Films AG
United Kingdom
PolyGram (UK) Holdings Ltd.
PolyGram Leisure Ltd.
PolyGram UK Ltd.
PolyGram International Ltd.
PolyGram International Music Publishing Ltd.
Island Entertainment Group Ltd.
Mercury Records Ltd.
Polydor Ltd.
PolyGram Record Operations Ltd.
A&M Records Ltd.
Britannia Music Company Ltd.
The Decca Record Company Ltd.
PolyGram Video International Ltd.
Dick James Music Ltd.
PolyGram Filmed Entertainment (UK) Ltd.
Really Useful Holdings Ltd. 30%
Working Title Films Ltd.
PolyGram Film International Ltd.
ITC Entertainment Group Ltd.
PolyGram Manufacturing & Distribution Centres Ltd.

Africa

South Africa
PolyGram South Africa 67%

North America

Canada
PolyGram Canada Inc.
United States of America
PolyGram Holding, Inc.
PolyGram Records, Inc.
PolyGram Group Distribution, Inc.
PolyGram Merchandising, Inc.
Island Entertainment Group, Inc.
Motown Record Company L.P.
PolyGram International Publishing, Inc.
A&M Records, Inc.
Propaganda Films, Inc.
Interscope Communications, Inc.
PolyGram Manufacturing & Distribution Centres, Inc.
PolyGram Filmed Entertainment Distribution, Inc.
PolyGram Filmed Entertainment Inc.
Def Jam Records, Inc. 60%
Motown Café, LLC 25%
GTS Records 51%
Capricorn Records, LLC 51%

Latin America

Argentina
PolyGram Discos S.A.
Brazil
PolyGram do Brasil Ltda.
Chile
PolyGram Discos Limitada
Colombia
PolyGram Colombia S.A.
Costa Rica
PolyGram de Centro America S.A.
Ecuador
PolyGram Ecuador S.A.
Mexico
PolyGram Discos S.A. de C.V.
Peru
PolyGram Peru S.A.
Uruguay
PolyGram Discos Uruguay S.A.
Venezuela
PolyGram Records S.A.

Asia

Hong Kong
PolyGram Records Ltd.
PolyGram Music Publishing Hong Kong Ltd.
India
PolyGram India Ltd. 51%
Indonesia
P.T. PolyGram Indonesia 80%
Japan
PolyGram K.K.
Polydor K.K. 99%
Mercury Music Entertainment Co. Ltd.
K.K. Kitty Enterprise
Nu-Taurus Inc.
PolyGram Music Japan Inc.
Malaysia
PolyGram Records Sdn. Bhd.
Philippines
PolyGram Records Corporation 51%
Singapore
PolyGram Records Private Ltd.
MTV Asia LDC 36%
South Korea
PolyGram Ltd. 80%
Taiwan
PolyGram Records Ltd.
Decca Records Taiwan Ltd. 60%
PolyGram Music Publishing Ltd.
What's Music International Inc. 60%
Thailand
PolyGram Records (Thailand) Ltd. 74%

Australia and New Zealand

Australia
PolyGram Pty. Ltd.
PolyGram Music Publishing Australia Pty. Ltd.
New Zealand
PolyGram Records Ltd.

Annual meeting

The Annual General Meeting of PolyGram N.V. will be held at The Grand, Oudezijds Voorburgwal 197, Amsterdam, The Netherlands on Thursday, April 2, 1998 starting at 2.00 p.m.

Shareholder information

Shareholders needing information relating to their shareholdings in PolyGram N.V. should contact the Shareholder Information Department, PolyGram N.V., Gerrit van der Veenlaan 4, 3743 DN Baarn, The Netherlands. Shareholders who purchased shares on the New York Stock Exchange may contact the Company's US Transfer Agent and Registrar, Citibank – WWSS – Investor Services, c/o Citicorp Data Distribution, Inc., P.O. Box 308, Paramus, N.J. 07653, Attention: Shareholder Services. Tel: (800) 422 2066.

Provisional reporting dates of 1998 interim results

1st quarter: April 21; 2nd quarter: July 22; 3rd quarter: October 21.

The evolution of PolyGram

The beginnings of PolyGram can be traced back a century to 1898 and the founding of Deutsche Grammophon Gesellschaft, one of the world's pre-eminent classical music labels. In the 100 years since then, thousands of renowned popular and classical artists have recorded on the labels that today consitutute the PolyGram Group. PolyGram itself began operations in 1962 as a joint venture between N.V. Philips' Gloeilampenfabrieken (now Philips Electronics N.V.) and Siemens AG. Under the joint venture, Siemens assigned to Philips 50% of its subsidiary Deutsche Grammophon Gesellschaft, in return for 50% of Philips Phonographische Industrie, a subsidiary founded in 1950.

The subsidiaries were reorganised in 1972 as PolyGram, and in transactions in 1985 and 1987, Philips purchased Siemens' 50% interest. In December 1989, PolyGram became a public company when Philips sold approximately 16% of its interest and PolyGram offered newly issued shares in an initial public offering. In September 1993, PolyGram successfully completed an international offering of 10 million new shares. Philips currently holds 75% of PolyGram's shares.

Today, PolyGram is a global entertainment company. It is the world's largest music company and one of the three largest recorded music publishers worldwide. In addition to its founding company Deutsche Grammophon, its world famous labels include Motown, Mercury, Polydor, Vertigo, Fontana, A&M, Island and Def Jam for popular music, Verve for jazz and Decca/London and Philips Music Group for classical music. PolyGram's principal activity is the creation, acquisition and production of recorded music which it markets and distributes through its network of subsidiaries in almost 50 countries and licensees elsewhere worldwide.

In recent years, PolyGram has expanded its production and distribution capabilities in filmed entertainment. The Company's film production labels include Propaganda Films, Working Title Films and Interscope Communications as well as local language film producers in France and The Netherlands.

PolyGram has film distribution operations in 15 countries, including the United States through PolyGram Films and Gramercy Pictures.

Investor information

Investors desiring further information about PolyGram or who want to receive a copy of our Annual Report on Form 20-F, which will be filed with the US Securities and Exchange Commission, should contact the Corporate Investor Relations Department at:

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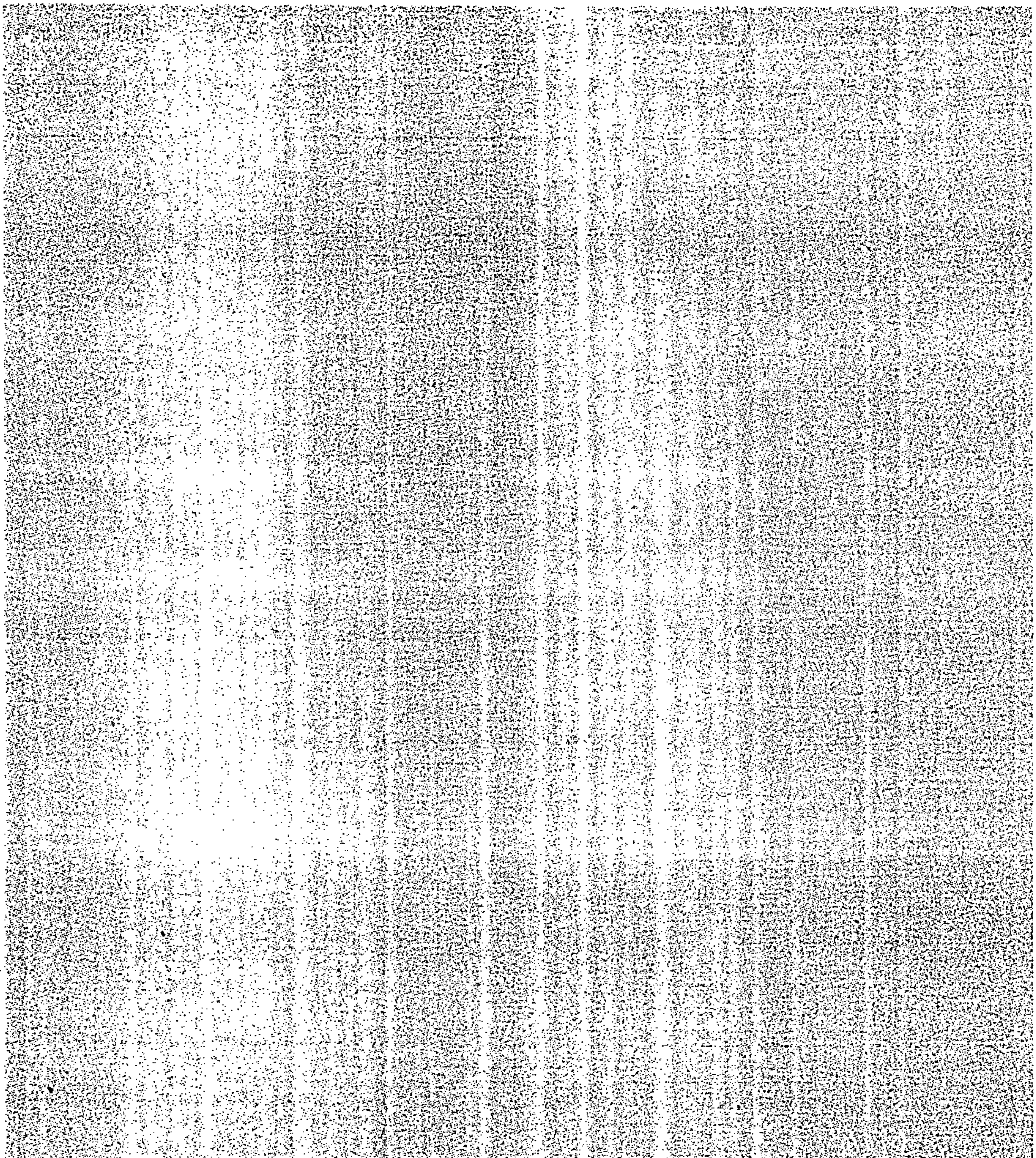
This report will be available on PolyGram's Corporate Information web site www.polygram.com.



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